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Stories To Read From FNArena

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Contents

Accent Discards Discounting, Steps Up Margin

Removing discount-driven promotional activity at the end of FY18 has had a positive impact on footwear retailer Accent.

-Strong like-for-like sales in the face of difficult retail trading -Investment in online procuring substantial increase in sales -Roll-out numbers increase, supported by results from new stores, leasing deals

By Eva Brocklehurst

The critical Christmas trading period is yet to play out but footwear business Accent ((AX1)) expects strong first half earnings, as improved margins and the online business have an impact.

After the first 20 weeks of FY19 the company remains focused on its strategy of "No Lazy Retailing", having removed discount-driven promotional activity. The resultant increase in margins has been a driver of forecasts for improved profits.

Like-for-like sales in the year to date are up 2.5%, which Bell Potter observes is broadly steady with the growth achieved in the second half of FY18. The broker believes this is a strong outcome, given the difficult retail trading environment.

The company expects first half operating earnings (EBITDA) to be 15-20% higher. Second half earnings are expected to grow by mid single digits as the benefits of lower discounting on gross margin ease, given this commenced in the second half of FY18.

Franchise income is expected to fall as stores are corporatised in coming years. The company has indicated the buying back of The Athlete's Foot stores is tracking to plan, with around 50 corporate stores expected by the end of FY19.

Morgans upgrades to Add from Hold with a target of $1.46, believing the recent de-rating of the share price means the stock is trading on a more reasonable multiple. The broker had anticipated sales would slowdown after the FY18 result because of a reduction in clearance activity and the cycling of a strong result within Hype. December is an important month, but there is upside risk to guidance because of the expansion in gross margin to date.

Accent remains Citi's top pick in the small cap retail sector, with a Buy rating and $1.65 target. The business has a lower level of housing exposure versus sector peers such as Nick Scali ((NCK)) and Beacon Lighting ((BLX)). The broker also believes the risk from Amazon is overstated in the short term.

Moreover, there is medium-term upside potential from rolling out of international stores, options that are being explored. Citi suspects like-for-like sales momentum probably slowed to around 1.4% over the last 13 weeks of the first half, probably because of unfavourable weather and reduced discounting.

Slowing sales would be in line with recent trading updates from Myer ((MYR)). The broker also agrees a strategy to reduce discounting has been successful and there is upside if pent-up consumer demand is unleashed from less discounting. Momentum in licenced brands such as Vans and Skechers should also underpin the business.

Gross Margins

Growth may have slowed, but the strategy to dramatically reduce discounting has had an impact. Reduced clearance activity and a greater proportion of vertical branded sales have expanded gross margins significantly. Morgans notes gross margins were up more than 300 basis points versus the prior comparable period.

Morgans expects FY19 operating earnings to grow 13.6%, supported by like-for-like sales growth of 2.5%, a net 32 new stores and an increase in gross margin over the year of 150 basis points.

Citi expects gross margin expansion should moderate in the second half, forecasting expansion of 25 basis points on the back of increased vertical brand sales, larger proportion of higher-margin retail sales, higher-margin accessories and favourable FX.

Bell Potter strengthens its gross margin forecasts and assumptions for new stores. The net effect is an increase for FY19 and FY20 earnings-per-share estimates of 6.4% and 7.7% respectively. Bell Potter assesses Accent as a stand-out performer in the retail space and maintains a Buy rating and $1.75 target.

Online

Online sales growth has been exceptionally strong, up 88% year-to-date, a result of investment in this channel in recent years as well as premium delivery options. Store roll-out in FY19 has been increased to around 40 versus 30, stemming from better trading at new stores and attractive leasing deals. Bell Potter believes the combination of a vertical model, omni-channel capabilities and expansion into Asia is attractive.

Accent owns/operates a number of footwear businesses including multi-brand The Athlete's Foot Australia, Platypus and Hype as well as single-branded store such as Merrell, Skechers, Vans and Timberland.

Slowing New Car Sales Dent Auto Holdings

Consistent with industry data, Automotive Holdings has signalled a slowdown in new car sales in the first four months of FY19.

-Subdued retail and consumer sector outlook dragging on new car sales -Prospects for M&A are strong as automotive consolidation accelerates -UBS suspects sale process could still ensue for refrigerated logistics

By Eva Brocklehurst

The performance of Automotive Holdings ((AHG)) has slowed in the first four months of FY19, amid soft new car volumes and deteriorating consumer confidence. The company has guided to full year operating net profit in a range of $56-59m.

A stronger second half is expected, but with operating net profit already falling -45%, Morgan Stanley suggests this implies further downside risk to the full year. Automotive trading is likely to remain weak, albeit the company is cycling the most difficult comparables within the first four months.

Consolidated operating earnings (EBITDA) are down -15%, relative to the prior corresponding first four months. The fall in automotive earnings is only partly offset by a modest increase in refrigerated logistics. The company's guidance is consistent with recent VFACTS data, UBS points out, which shows new car sales over July-October were down -5.0%.

The broker has also observed a much more subdued retail and consumer sector outlook in its surveys and does not believe new car sales in FY20 will grow the same rate as in previous decades. UBS notes new car sales grew 3% over 1996-2015.

New car sales are driven by increased affordability and rising wealth, a function of lower interest rates and better quality at lower price points, as well as affordable financing. However, in the near term these trends are outweighed by macro weakness and dropping house prices.

UBS also does not believe the company can push back on margins. Automotive operating earnings margins have fallen to 2.4% in forecasts for FY19, from 3.8%. From this base, the broker expects incremental improvements, as the company benefits from scale and cost reductions, with margins likely settling around 3.0%.

Finance & Insurance

Automotive Holdings is also affected by the regulatory changes that have occurred in finance & insurance. UBS estimates finance commissions could be reduced by around -25%.

This reduced income should be factored into the stock by now but Credit Suisse has also noted that specific brand pressures exacerbate Automotive Holdings' broader challenges. The company has a geographic skew to Western Australia and an historical over-reliance on finance & insurance income.

Deutsche Bank agrees the outlook is tough. Automotive Holdings, nonetheless, is the largest automotive group in Australia in a sector where scale is increasingly important. The broker believes consolidation will accelerate and benefit the larger operators and, while the near-term earnings risks are high, there is valuation support while prospects for M&A are strong.

Bell Potter acknowledges the difficult operating environment but expects the first half is likely to be the trough in earnings. The broker, not one of the eight monitored daily on the FNArena database, maintains a Buy rating with a $2.20 target.

Refrigerated Logistics

Bell Potter downgrades estimates for earnings per share by -15% for FY19 and FY20, driven by reductions in automotive forecasts, partly offset by increases in refrigerated logistics forecasts.

However, the broker still does not expect as strong an improvement in the second half performance of refrigerated logistics as the company appears to be anticipating. Operating earnings for the refrigerated logistics segment of $11.4m were up 6%, and the company expects a substantial improvement in the second half.

There are new fleet, warehouse & transport management systems, but UBS suspects the company will not reach its 10% operating earnings margin target for FY20. Now the business has been reinvigorated, the broker suggests the company could run a sales process and divest the division over the next year.

The database shows two Sell ratings, four Hold and one Buy (Ord Minnett, yet to comment on the update). The consensus target is $2.07, suggesting 21.8% upside to the last share price. The dividend yield on FY19 and FY20 forecasts is 7.3% and 8.8% respectively.

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Is F&P Healthcare Overvalued?

Brokers consider Fisher & Paykel Healthcare is overvalued, as litigation and competitive headwinds buffet the business.

-Frequency of product releases key to maintaining clinician engagement, revenue -Return to growth in hardware sales expected once the F&P950 product is launched -News flow regarding several lawsuits expected in coming months

By Eva Brocklehurst

Risks continue to mount for Fisher & Paykel Healthcare ((FPH)) and several brokers question whether the share price is taking all the variables into account. The company's first half result revealed strong headline growth, although a soft comparable was being cycled. Net profit was up 2.5% and marginally ahead of guidance.

Softer sales of ICU equipment to hospitals were noted, attributed to hospitals awaiting the release of the F&P950 product. Macquarie expects this will affect revenue growth in a positive way in FY20/21 when the system is released in Europe/US.

Hospital division revenue growth was up 11%, supported by new applications, largely Optiflow. Revenue growth in obstructive sleep apnoea (OSA) masks was soft, at just 2%. Macquarie blames this on a competitive market and competitor releases and asserts that the frequency of product releases remains key to maintaining clinician engagement and revenue growth.

Citi considers the stock overvalued at 32x FY20 price/earnings estimates. Still, results are being driven by high quality growth from the hospital division and the broker continues to expand revenue growth of over 20% from Optiflow, where there is an opportunity for further penetration of the high-flow nasal oxygen to new hospital sites.

The opportunity stems from the clinical efficacy of Optiflow and the ease of administration for medical practitioners.The rest of the hospital legacy business remains low growth and mature and, while hardware sales were flat in the first half, the broker expects a return to growth once the F&P950 product is launched.

UBS, too, believes the stock is expensive against the backdrop of potential risks. There are litigation costs and smaller tailwinds from the New Zealand dollar. In addition, the broker anticipates revenue risk from a mild flu season in the second half.

UBS envisages risks to FY20 consensus expectations because of delays to the OSA masks and margin pressure from new manufacturing facilities and IT systems and suspects the share price is ignoring the earnings risk. Wilsons considers the valuation highly sensitive to the maintenance of a 20% growth rate in new applications over the longer term.

While assessing the business favourably the broker, not one of the eight monitored daily on the FNArena database, waits for a better entry point to the stock and maintains a Hold rating with a $13 target. The database has four Sell ratings and one Hold (Deutsche Bank).

Competitive Issues

A manufacturing delay has resulted in the new OSA mask range being deferred, but the company expects to have a new mask available early in 2019 and subsequently release the rest of the range over the year.

Investors have been awaiting these new masks, as ResMed and Philips (Respironics) have shorter average mask release cycles. Moreover, the product cycle is becoming increasingly important, Macquarie suggests, given the lawsuits involving the company.

Citi notes plans to launch two new products before the end of 2018 have been shelved. While the OSA mask business enjoyed a strong performance over recent years as new models were introduced, the broker suspects this outperformance has come to an end in the first half, with ResMed and Respironics gaining market share. Both Deutsche Bank and Citi expect ResMed to continue to take share into FY20.

UBS also believes material gains in F&P Healthcare's market share in OSA masks are unlikely in the near future. Constant currency gross margin expansion has reduced to 22 basis points in the first half, from 146 basis points in the second half.

The upfront costs of new Mexican manufacturing facilities are also likely to depress margins until throughput expands, expected in the second half of FY20. Wilsons does not believe there will be a major impact from the manufacturing delay, although agrees a mild flu season in the second half of FY19 could produce another weak half for hospital sales.

Litigation

The company has provided further details on the various lawsuits occupying its attention. Macquarie notes a recent German court decision favoured ResMed but this decision does not affect the sale of supply of F&P Healthcare products. The infringement relates to strap design not the respiratory interface. A final decision will be made by the European Patent Office, expected in June/July 2019.

Litigation is ongoing in a number of markets, including the US, UK, Europe, Australia and New Zealand relating to masks, flow generators, heated tubing and humidifier water chambers. Macquarie expects the news to flow regarding these lawsuits in coming months.

Citi expects hospital growth to continue in the mid-to-long term, notwithstanding the litigation from ResMed and the related expenses. The broker does point out that ResMed remains fairly confident of its position in these cases. Litigation costs are expected to rise to NZ$20-30m over FY19, with the company having already spent NZ$7.7m. The company has guided to revenue of NZ$1.07bn in FY19.

Coles: Defensive Or Under Pressure?

Is newly-listed Coles the way to access the defensive grocery industry or will an under-investment in labour and ranges put pressure on earnings margins?

-New distribution centres likely to drag on the balance sheet -Material opportunity to grow earnings online -Convenience store earnings challenged as fuel volumes declined

By Eva Brocklehurst

Brokers are having a bet every which way with newly-listed Coles ((COL)). The stock is trading on a deferred settlement basis and already there is a range of recommendations.

UBS initiates coverage with a Sell rating, believing Coles is a good business but faces a number of near-term issues. Sales growth has moderated after the Little Shop campaign, while there are cost pressures from underlying wage inflation and a need to lift staffing.

Citi believes Coles is a cheaper avenue to access the defensive earnings stream of a rational, albeit competitive, grocery industry. The broker calculates the stock is trading on an attractive multiple and expects the gap to Woolworths ((WOW)) to narrow over the next five years. Citi initiates coverage with a Buy rating.

The FNArena database has two Sell, three Hold and one Buy (Citi). The consensus target is $12.99 and targets range from $11.90 (UBS) to $14.70 (Citi). Goldman Sachs, not one of the eight monitored daily on the database also initiates with a Buy rating and $14.80 target.

Goldman Sachs forecasts an operating earnings (EBIT) growth rate out to FY21 of 7.1% which compares with Woolworths at 5.2%. Coles is the second largest supermarket retailer in Australia with an estimated market share of 29% across food and liquor. Woolworths has 39%.

The broker expects the supermarket sector to improve modestly over the medium term across fresh, online and convenience outlets and increases industry sales growth expectations to 4.25% in FY19 from 4.0%, and to 4.5% in FY20 from 4.0%. This reflects expected improvement in trends around inflation and some shift in promotional intensity from the major supermarkets.

Morgans considers the business defensive, with well-known brands and good market positions. The size of Coles lends itself to scale and efficiency benefits not available to smaller operators. Still the competitive environment remains intense and the broker suspects this will translate to modest earnings growth, forecasting an average of 4.4% between FY18-21.

Macquarie also expects Coles to appeal to defensive investors but suspects returns on the new distribution centres will drag on the balance sheet over the next five years, although for the longer term this is an appropriate use of capital.

UBS believes the risk is to the downside as the new CEO does not yet have full control of the strategy or numbers, underpinned by the fact that his long-term incentives do not get priced in until the day after the first half result.

Growth

Food industry growth should accelerate over the next three years, UBS concurs, yet does not believe Coles can grow food margins sustainably because of its under-investment in labour and because ranges may need to increase, putting pressure on costs. The broker also suspects prices have begun to exceed Woolworths, which will need to be rectified as consumers begin to notice.

Coles has de-merged with a strong balance sheet and, while taking issue with the provisioning of costs associated with the new distribution centres, UBS remains positive about that investment.

Citi also acknowledges the need to reinvest in grocery and expects capital expenditure per square metre to increase by 19% in FY19 and a further 12% in FY20. Still, the broker expects the reinvestment to be gradual and rational.

Credit Suisse cautions against over exuberance with respect to profit margins, expecting growing discounter competition will keep margins relatively flat. While the broker accepts that Coles would have been able to fund itself independently over the past 18 years, an 80% pay-out ratio would have only been achievable during a period of lower-than-historical capital expenditure. Hence, downside risk is envisaged for the dividend pay-out ratio.

Convenience

The convenience market is challenged, with UBS estimating a -36% decline in first half convenience operating earnings. Morgans is also concerned about convenience, as fuel volumes are under pressure.

Convenience earnings are affected by high oil prices and a weaker Australian dollar. Fuel like-for-like volumes fell -15.9% in the first quarter. The broker forecasts convenience earnings to be down -17% with further downside risks if difficult trading conditions persist.

Citi agrees the petrol business is currently uncompetitive on price and expects volume declines to continue. Still convenience represents just 7% of FY19 operating earnings and 4% of the enterprise value and the broker considers the earnings risk less meaningful overall.

In the long-term competition is still expected to increase, driven by Amazon online and Kaufland. Credit Suisse believes the opening of Costco online first quarter of 2019 has potential to increase transparency of discounted grocery prices and therefore price competition across the market. Kaufland will open its first store in 2019.

Fresh

Coles has flagged fresh food as a strategic priority. Fresh category sales have increased to 45% from 41% in FY12. Private label sales have also increased, to 29% from 26%. Coles has a target for private-label penetration of 40% of total food sales within five years, although this does not include fresh and areas of future growth such as food-to-go.

Goldman Sachs suggests the footprint is a modest disadvantage for Coles, as it is 20% below that of Woolworths. Still, while disadvantaged in the short term this also means there are opportunities for growth for Coles across new channels.

See also, Sales Growth Likely to Slow For Coles on October 16, 2018.

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Brickworks Builds Out US Expansion Strategy

A slowing Australian housing market has made brokers cautious about Brickworks, although the company has signalled an expansion strategy in the buoyant US market.

-Building product earnings materially weaker in the first half -Glen-Gery a beachhead for expansion in the US -Large US market should create long-term growth prospects

By Eva Brocklehurst

Earnings from its property portfolio have put Brickworks ((BKW)) on a firm footing, while the expansion strategy in the US has triggered interest. Brickworks has guided to higher property earnings amid a moderation in building products in the first half.

The company expects property revaluation benefits will be forthcoming, reflecting continued cap rate compression in the industrial market, particularly Sydney. Completion of Oakdale South is also expected to contribute to profits. Property earnings will be skewed to the first half, supported by the sale of the Punchbowl site. The company is forecasting a record result for the full year.

Meanwhile, building products are materially weaker in the first half. Wet weather affected in NSW affected building products in October although this was countered by better weather in November. In contrast, Brickworks observes demand in Victoria is at unprecedented levels.

The company has indicated credit availability has affected demand yet fundamentals remain supportive for new housing construction, with solid employment, low interest rates and high immigration levels.

Energy costs are expected to increase by $11.7m in FY19. The company has experienced increased manufacturing costs as energy prices have an impact. There have also been some one-off production problems which have now been resolved.

Macquarie observes the property portfolio should continue to offset building products, although there is a lower degree of visibility and significant lumpiness around the earnings impact. Still a slowing Australian housing cycle makes the broker cautious on the investment outlook.

Morgans expects the increase in property earnings and the recent Glen-Gery acquisition will more than offset a decline in Australian building products. The broker increases FY19 property operating earnings estimates (EBIT) by 28%.

Given the significant premium to the sector, Citi envisages there is limited valuation upside for the stock, despite the fact that the strong November performance stood out in a sector battered by downgrades and soft macro data.

Glen-Gery

Brickworks has acquired Glen-Gery for $151m, funded by debt. Glen-Gery is a US-based brick manufacturer, the number four, and the deal provides exposure to a market that is around 3x larger than the Australian market. Citi calculates the acquisition is accretive while, strategically, it should provide diversity and potential growth in a fragmented market.

Morgans points to a strong tradition of brick in the US in both residential and commercial applications. Macquarie was surprised by the acquisition, noting that the company envisages Glen-Gery as a beachhead for expansion in the US.

Yet, while there appears to be opportunities to improve efficiencies, the broker contends that the intensity of brick use is under pressure in the US, and the geographical separation from existing operations mean synergies are limited.

Macquarie is of the opinion that Brickworks could be better placed by building out its core competency through a diversification strategy. Nevertheless, this is not a large transaction and the company will keep the existing Glen-Gery team while assuming leadership, which reduces risks.

Morgans is more keen, citing supportive tax policies, a proactive energy policy and efficient transport infrastructure in the US. The company's focus is on improving efficiencies at Glen-Gery, partly through investment and extension of ranges.

Glen-Gery has sales exposure to non-residential activity of 49% and limited multi-residential exposure of 13%. The acquisition does not alter the investment thesis meaningfully, although Macquarie is intrigued by the strategic aspect, which signals growth options may have been limited for Brickworks.

Morgans believes, given the tough operating environment in Australia, expansion in the US is a good strategy and the larger market should create long-term growth prospects. The broker points out Glen-Gery will only contribute around eight months to FY19 earnings and the first half is expected to be negative because of plant shutdowns and lower sales during winter months.

FNArena's database has three Hold ratings and one Buy (Deutsche Bank, yet to comment on the AGM or acquisition). The consensus target is $16.93, suggesting 5.7% upside to the last share price.

International Growth Buoys Harvey Norman

Harvey Norman's Australian franchise has returned to positive sales growth since September, yet brokers remain cautious ahead of the all-important Christmas trading period.

-Competition in Australian market still likely to intensify -Store expansion internationally should support growth -Key risk is franchisee margins in Australia

By Eva Brocklehurst

Sales growth at Harvey Norman's ((HVN)) Australian franchises has improved in recent months, albeit still lagging well behind the international portfolio. All divisions have improved and the core Australian franchising operation has returned to positive sales growth since September.

Australian franchisee sales declined -1.3% over the financial year to date, slightly better than the first eight weeks where sales were down -2.0%. Aggregated sales were up 2.7%, assisted by currency and reflecting strong results in offshore operations. Malaysia was up 32.4%, Ireland up 20.9%, Slovenia/Croatia up 8.8% and Singapore up 3.2%. New Zealand sales were up 4.5%.

The company did not include any margin or earnings guidance in its update or any commentary regarding the Black Friday sales or the outlook for Christmas trading, which will be critical. Citi is surprised the run rate of like-for-like sales growth has improved in Australia, given the headwinds from a slowing housing sector and cooler weather that affected seasonal sales.

The broker is also cautious about the level of promotional investment across the industry that has been deployed over the past 12 months, which now must be cycled. Retaining a Sell rating, Citi still envisages earnings risks to the downside.

Competition in the Australian market will only intensify, Macquarie believes, amid a moderation in housing activity. Therefore, the need for ongoing investment will only increase. The broker acknowledges upside to its target, largely because of the real estate component of the valuation, while the path towards crystallising this is unclear.

Ord Minnett points out comparables are difficult to analyse. December 2017 was a strong month as a result of an underwhelming launch by Amazon that bolstered sales for Harvey Norman. Still, progress so far in the first half is ahead of its forecasts.

International

Like-for-like sales growth remains strong in international business and the company is targeting a 20% expansion in its store network in the next two years. Macquarie believes, while this should support growth, it remains a source of higher risk.

International business, while not large enough to offset the weakness in Australia, is showing the benefits of diversification. Credit Suisse asserts, while company has often been criticised for poor capital allocation, allocating capital to growth in Asia appears to be reasonably good decision.

While struggling to envisage the stock outperforming during the housing market downturn in Australia, international does offer some downside protection, the broker adds, also noting there is a level of support from alternative use of the company's Australian property portfolio

UBS is cautious about the consumer outlook but, given a 9% dividend yield and the diversification that comes from the international business, retains a Neutral rating. The broker now forecasts 14% growth in international operations in FY19.

Margins

In Australia, UBS believes the key risk is franchisee margins, forecasting a decline to 3.9% in FY20. In past downturns, Australian franchisee margins have fallen to around 2.4%. The broker believes the outlook for Harvey Norman is challenged, as competition is intensifying amid a shift to online business. Credit Suisse considers Harvey Norman better protected from industry changes than JB Hi-Fi ((JBH)).

Australia may not be as strong as it was in the past, but Deutsche Bank believes this is not a disaster, and offshore business, now one third of earnings, as well as resilient property earnings, should drive growth at a group level. The broker believes the market is incorporating a scenario that is too dire.

There is one Buy rating (Deutsche Bank) on FNArena's database, with four Hold and two Sell. The consensus target is $3.64, suggesting 16.8% upside to the last share price. The dividend yield on FY19 to forecasts is 8.8% and on FY20, 7.8%.

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Collins Foods Delivers Solid Growth In KFC Oz

The KFC Australia business of Collins Foods continues to perform well amid new menu and delivery initiatives while KFC Europe is promising but requires further work.

-Increased use of delivery aggregators, remodelling continues -Operating leverage should become evident in Europe as network expands -Modest expectations for Taco Bell maintained for the near term

By Eva Brocklehurst

Stronger margins for KFC Australia offset a softer performance in Europe for Collins Foods ((CKF)) in the first half. Same-store sales growth has slowed slightly in the second half to date while Europe remains negative.

First half results were driven by acquisitions and KFC Australia continues to perform well. Although KFC Europe offers significant potential, the region retains its difficulties and requires further work. Meanwhile, early signs for Taco Bell in Australia are quite positive and the rolling out of stores is expected to be driver of growth.

For Deutsche Bank the result highlights a strong rebound in Australia, driven by a recovery in Western Australia and continued traction on menu and delivery initiatives. The company has ramped up its Australian delivery footprint which should bode well for same-store sales growth. Use of delivery aggregators, such as Deliveroo, will increase and domestic restaurants are being remodelled to support dual-lane drive-through.

Canaccord Genuity also expects the expansion of deliveries at KFC Australia will be a primary driver of earnings. There are 44 restaurants currently operating with a delivery option and this will rise to 70 in the near term.

While the company provided no specific guidance, KFC Australia started the second half with same-store sales growth just below 2%. Wilsons expects positive momentum in Western Australia to continue amid incremental sales from the expansion of the delivery network. Margins are modelled to contract in FY20 and FY21 on assumptions for higher raw material costs.

Wilsons, not one of the eight stockbrokers monitored daily on the FNArena database, retains a Buy rating and $7.46 target. Canaccord Genuity, also not one of the eight, has a Buy rating and $7.70 target. The broker also expects management's initiatives will keep comparable store sales healthy, with the options for Taco Bell underpinning the investment thesis.

First half revenue was up 27.6% and underlying earnings (EBITDA) up 31.7%. Morgans remains attracted to the growth prospects in the base KFC Australia business but, following the recent share price rally, believes the stock is trading on a significant premium to the long-term average.

The only blemish UBS found on an otherwise solid result was in Europe. Still, this was offset by earnings for KFC Australia and Western Australia in particular that were well above estimates. The company expects six new KFC Australia restaurants in the second half and another four for KFC Europe.

Europe

Margin weakness in Europe is reflecting the company's investment strategy, amid a significant roll-out. Negative aspects in Europe are expected to continue through the second half before modest growth returns.

Management has been forthcoming about the difficulties in both the Netherlands and Germany and Canaccord suspects retraining, rebranding and promotional campaigns will take time to produce results. Deutsche Bank also expects operating leverage to become evident as a network expands and believes the European opportunity remains highly attractive.

The focus in Europe is on a variety of value/snack initiatives in Germany as well as a breakfast menu at German train stations. Loyalty and mobile offerings are hyped in the Netherlands and 24/7 trading is being introduced in selected Dutch restaurants. Nevertheless, Morgans remains cautious about the European expansion in the short term.

Taco Bell

Two additional restaurants in 2018 for Taco Bell will be added and another 10 are proposed for 2019. Canaccord Genuity observes it will take six months for these stores to mature and maintains modest expectations in the near term. The model relies heavily on customer engagement.

The company has guided to aggregate operating earnings losses at Taco Bell of -$2m over FY19 and FY20. Canaccord Genuity believes it will be important to build the right culture in the stores to drive customer acceptance and ensure the success experienced in early Queensland stores can be replicated across the broader network.

UBS is confident the company can achieve free cash flow ex-expenditure on new stores. Nevertheless, another acquisition that will materially contribute to earnings in FY19 is considered unlikely. The three businesses the company has acquired over the past 14 months are expected to contribute around 18% of operating earnings and management is expected to focus on integrating these in the near term.

The database shows two Buy ratings and one Hold (Morgans). The consensus target is $7.40, signalling 2.6% upside to the last share price. This compares with $6.51 ahead of the results.

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Material Matters: Oz Miners, Energy & Bulks

A glance through the latest expert views and predictions about commodities. Oz miners; energy; and bulks.

-M&A, new projects gradually featuring more in Australia's mining industry -Macquarie expects relief rally in oil prices and positive outlook for oil stocks -Lump, pellet producers relative winners in iron ore -Hard coking coal prices remain elevated on the back of Indian demand

By Eva Brocklehurst

Oz Miners

RBC Capital Markets considers the Australian mining industry is in a "honeymoon" phase, as the worst of the bad times are behind, whilst the significant risk taking involved with growth is yet to come.

Slowly, the analysts observe the sector is changing. Investors are now less hostile to M&A and there has been some "good" recent examples such as Northern Star's ((NST)) acquisition of Pogo. RBC points out there is a finite pool of assets and, as a result, many companies have ratcheted up rhetoric around potential combinations, amid generally favourable market reactions.

Another developing feature is that mid-cap producers have recommitted to exploration and, more recently, the major miners are noting potential discoveries. At some stage new projects will be sanctioned, although the analysts suggest these may not necessarily be adding to existing production.

The sticking point for investors, RBC suspects, will be whether capital is being used to simply stand still. Those with capital plans that can deliver outright growth in the near term are likely to be better received than those that are simply trying to stay in business.

Energy

Oil prices may have fallen -28% since the beginning of October but Macquarie's analysts expect a relief rally, which should have positive implications for stocks under coverage. Support for oil prices is expected in the near term because of cold weather in the northern hemisphere at an end to the refinery turnaround period.

On the supply side, OPEC is expected to bow to the inevitable and cut production at either the G20 meeting on November 30 or at its meeting with Russia in Vienna on December 7.

Oil Search ((OSH)) remains Macquarie's preferred large cap oil stock. The broker believes it has the greatest leverage to near-term oil upside. Santos ((STO)), also rated Outperform, has reduced its leverage and exposure to oil prices following the recent acquisition of Quadrant Energy. Woodside Petroleum ((WPL)) is the least preferred, as it is trading at a premium to both Oil Search and Santos but without the growth potential.

Beach Energy ((BPT)), rated Neutral, offers near-term exposure to an oil rally but the risk to growth targets tempers the broker's enthusiasm. Macquarie prefers Cooper Energy ((COE)) and Senex Energy ((SXY)) among mid-cap oil stocks as both offer exposure to east coast gas prices.

Ord Minnett agrees the Australian energy sector looks more attractive after the drop in benchmark oil prices. The broker was concerned about full valuations but now find share prices in four out of the six energy stocks under coverage are below valuation. Hence, the broker upgrades Santos and Origin Energy ((ORG)) to Buy and Woodside and Senex to Accumulate.

Ord Minnett believes Santos offers growth, with production expected to increase more than 75% over the next six years. Origin Energy is also attractive, as wholesale prices could have a positive impact on the company's retail electricity business. Ord Minnett reiterates a Buy rating for Beach Energy as, while it is most exposed to domestic markets, it has a strong balance sheet.

Bulks

Citi observes bulk commodity spot prices are elevated against a backdrop of heightened trade tensions between US and China. This is also against a sell-off in other cyclically-exposed industrial commodities such as base metals and crude oil.

The bulks have benefited from constructive Chinese end-use steel and coal demand amid persistent controls over Chinese supply growth and widening quality differentials. Citi expects benchmark prices will fall over the next 3-5 years but not to the levels previously anticipated.

In thermal coal, high-ranked Australian producers are expected to benefit from consolidation and the price inelasticity of Japanese power plants. Low-cost Indonesian producers will enjoy strong margins and market share in the near term, Citi suggests. The broker expects the high-ranking Atlantic Basin coal miners will be the first to suffer from a potential wave of cheap gas and severe market competition in Europe.

In iron ore the broker suggests lump and pellet producers will remain relative winners because China needs to reduce sintering and shaft pelletising operations to improve air quality in the Hebei region.

Credit Suisse reduces low-grade discounts and high-grade premiums for its iron ore forecasts, believing the cycle of Chinese steel mill super profits is over. With a downgrade to steel demand from Hong Kong-based colleagues, Credit Suisse takes a negative view. Steel margins are expected to normalise towards the lower levels of RMB200-400/t. Cost control rather than efficiency is now the priority for steel mills.

Given the bearish outlook for the Chinese steel sector, Credit Suisse believes hard coking (metallurgical) coal imports will fall. Elevated prices over the last 2.5 years have incentivised new supply, particularly in Queensland. The broker's forecast surplus has increased but the pace of the price decline has been moderated.

Morgan Stanley observes hard coking coal keeps beating market expectations and prices remain elevated. The spot price of US$222/t FOB Australia sits US$90/t above the 90th percentile on the seaborne cost curve, highlighting current market tightness.

The broker points out the tight market was also emphasised when the price rose US$20/t on the outage at North Goonyella, 2% of Australia's hard coking coal exports. North Goonyella is not expected to re-start before the second half of FY19 at the earliest.

As Australia cannot fulfill the growing demand, the marginal swing supplier, the US, has increased exports by 14%. Despite its crude steel output, China's coke production is down -2% on higher usage of scrap and, in line with its lower metallurgical coal needs, imports are down -4% year-to-date.

India is driving demand. as it lacks a quality domestic coking coal endowment and has to import. Indian imports have surged by 15% in the current year to 60mtpa. While the supply base for coking coal remains under pressure, Morgan Stanley notes Australia's thermal coal exports are running higher which suggests some of the lost semi-soft coking coal and PCI coal is being sold in the thermal market.

ESG Focus: All Aboard The ESG Train

Who Cares Wins: Why investors will be rewarded if they pay heed to corporate Environmental, Social and Governance credentials.

By Sarah Mills

The powers that be have been diligently laying the foundations for a transformation of global human affairs for the past two decades.

The board game has been set and the pieces are in place. Governmental bodies have been established; global compacts agreed; investing frameworks established; goals, benchmarks and indices developed; and what was a trickle of regulations is about to become a river along which capital will flow.

The upshot will be disruption in global financial markets. Huge pools of global capital will be withdrawn from some products and industries and invested in others; new financial markets and products are being developed; and companies are looking for ways to use the new order to build profitability moats against their competitors. Investors will want to be on the right side of these transactions.

Catalyst is coming of age

The catalyst for this transformation is the concept of Environmental, Social and Governance (ESG) investing. Once the subject of cynicism, thanks to the failure of its toothless prototype, Corporate Social Responsibility, industry mavens, from Harvard to Cambridge, now claim the evidence is in: studies going back 20 years show that companies with strong ESG strategies outperform those that don't.

A Harvard paper titled Corporate Investment in ESG Practices published in 2015, shows ESG improves an organisation's marketing and accounting performance; cuts the cost of capital, engages key stakeholder and boosts business reputation.

The Harvard Business Review says the results are very consistent: "firms making investments on material ESG issues outperform their peers in the future in terms of risk-adjusted stock price performance, sales growth, and profitability margin growth." As companies have a duty disclose information that may affect their bottom line, these findings proved a game-changer.

Major funds now use environmental, social and governance filters when making their investment decisions; chairmen of the world's largest corporations estimate nearly half of their time is being consumed with managing ESG risks; and a large and rapidly growing industry in ESG advice has been spawned – in part reflecting the complexity of the endeavour.

According to Morgan Stanley, more than $22.8trn in global funds are invested sustainably, representing more than $1 in every $4 under professional management. In Australia, responsible investment strategies now represent 12% of funds under professional management. The Responsible Investment Association of Australia 2017 Benchmark Report says assets under management using responsible investment principles jumped 9% to $622b in the year to December 31, 2016, representing nearly half (45%) of all professionally managed assets in Australia. Core ethical investments – those aimed specifically at making a positive impact on sustainability - rose 26% to 4% in the same period.

FNArena believes that the time has come to report regularly on ESG. To help our members catch the ESG tide, we will be covering a range of ESG subjects, such as its impact on asset classes, industries, companies and fund managers.

Our website now includes a dedicated section -ESG Focus- and we will be reporting regularly on further developments that have financial materiality to Australian stocks.

Defining ESG

ESG standards were designed to help investors avoid firms at risk of suffering financial losses arising from poor practices in environmental, social and governance practices. They align closely with the three megatrends sweeping the world: climate change, cyber-security and inequality; all of which pose substantial risks to companies globally: economic, environmental, geopolitical, societal and technological risks.

Global asset manager Robeco, which manages Euro246b of assets, uses the following definition for ESG investing:

"The pursuit of superior financial returns coupled with positive environmental, social and corporate governance outcomes."

As the term suggests, they aim to encourage corporations to respond to climate change, treat their workers well, build societal trust, foster innovation and better manage their supply chains.

The 'Environmental' refers to issues such as waste, pollution, natural resource conservation, the treatment of animals, climate change, clean technology, and water management. 'The Social' refers to health and safety, treatment of local communities, human rights, human resources, labour and working conditions and focuses on ensuring suppliers to corporations hold these positive values. 'The Governance' refers to reporting, the adoption of accurate and transparent accounting methods, disclosures, conflicts of interest, illegal behavior, compliance and regulation.

A history with sterling credentials

The lasso being used to rope corporations into line on ESG is essentially disclosure. The history of ESG harks back to the year 2000 when the UN launched the Global Compact, and established the Principles for Responsible Investment - the most powerful of which was arguably Principle 3 which sets the guidelines for ESG disclosures by companies.

In 2004, former UN Secretary General Kofi Annan wrote to the CEOs of 50 major financial institutions inviting them to participate in a Global Compact initiative, supported by the International Finance Committee and the Swiss government, to find ways to integrate ESG into capital markets. The actual term ESG was then coined in 2005 in a study by Ivo Knoepfel with the distinctly 'get with the program' title of Who Cares Wins. Armed with this report, and the Freshfield report; both of which argued that ESG was good for business, the Principles of Responsible Investment were then launched in 2006 at the New York Stock Exchange, followed by the Sustainable Stock Exchange Initiative in 2007.

In 2011, the European Commission determined organisations must disclose non-financial information that has a material impact on performance and determined which international framework would serve as a standard reporting guideline to be integrated into annual reports.

Then in 2015, the United Nations Climate Change Conference of 190 nations signed the Paris Accord, which aims to strengthen the international response to keep global temperature rise well below 2 degrees this century. A work program was created to develop modalities, procedures and guidelines on a broad range of issues. Also in 2015, at the UN Sustainable Development Summit, the 2030 Agenda for Sustainable Development was published containing 17 sustainable development goals (SDGs). The Sustainable Accounting Standards Board (SASB) then developed industry-by-industry accounting standards that identify the material ESG issues that could have financial implications for a company. Then the 2015 Harvard paper 'Corporate Investment in ESG Practices published in 2015, proving the link between ESG and financial performance, opened the floodgates. Most recently, the 2018, the European Commission Action plan lays the groundwork for mandatory risk disclosure in Europe.

Add to this raft of governmental crafting, the advent of big data and improved computer processing power, and the stage is set. Since 2015, fund managers and corporations have been on the hop.

Major advisory services, ratings agencies, stock exchanges and news agencies such as Bloomberg and Reuters, have also been quietly establishing an ESG presence, building expertise and developing strategies.

The impact of ESG investing is expected to vary widely according to the industry. While the rapidly growing array of sustainability indices may provide a first-level filter, fundamental analysis will be needed to grind down to individual companies and their supply chains.

According to a study by the University of Cambridge Institute for Sustainability Leadership, the most vulnerable industry will be real estate, followed by basic materials, construction and manufacturing. The best performers are expected to be transport, agriculture and consumer retail. Pundits predict that investors will seek to mitigate risks initially by switching from one class to another, and through cross industry and regional diversification, and from company to company, until the risk is priced in and markets witness a return to a "new normal".

Sovereign risk will be important. Some countries will fare better than others: most likely western nations given inequality has a big ESG weighting.

ESG investing basics

ESG investing is divided into three main categories:

Exclusions, or negative screening: which excludes companies, countries and industries: such as the "wages of sin sextet", which include weapons, alcohol, nuclear power, gambling and pornography. Fossil fuels is also finding its way on to the sin-list as are practices, companies and countries found to be in breach of the UN Global Compact.

Integration, or Best in Class, screening: which does not apply exclusions but instead applies an ESG filter across all industries and allows funds to invest in the best-in-class company in each industry. Such investment should prove a strong incentive to corporations seeking capital to lift their ESG game to investment grade. Impact, or positive screening: which invests in companies that have the greatest impact (often on the environment) by pioneering ways to use resources or improve equality, in areas such as water, energy, materials, food and health. Some fund terminology divides ESG investing into just two categories: 'Broad investing' (which is basically 'best-in-class" integration) and 'Core investing' (which is basically 'impact' investing).

A more in-depth breakdown of these categories will be provided in a separate report but essentially, the Integration, or Best in Class, approach is the one which is driving the greatest change in financial markets as it is the most commonly applied, particularly given some ESG indicators, such as board diversity, provide predictive value of stock returns.

We hope you will join us for front row seats in what is shaping up to be one of the defining new trends in global investing for the decade ahead.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

FNArena is proud about its track record and past achievements: Ten Years On

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

The FNArena database tabulates the views of eight major Australian and international stock brokers: Citi, Credit Suisse, Deutsche Bank, Macquarie, Morgan Stanley, Morgans, Ord Minnett and UBS.

For the purpose of broker rating correlation, Outperform and Overweight ratings are grouped as Buy, Neutral is grouped with Hold and Underperform and Underweight are grouped as Sell to provide a Buy/Hold/Sell (B/H/S) ratio.

Ratings, consensus target price and forecast earnings tables are published at the bottom of this report.

Summary

Period: Monday November 19 to Friday November 23, 2018 Total Upgrades: 16 Total Downgrades: 2 Net Ratings Breakdown: Buy 45.56%; Hold 41.20%; Sell 13.24%

Last week's attempt to find a bottom in the Australian share market was solidly supported by stockbroking analysts issuing a tsunami of recommendation upgrades for beaten down ASX-listed stocks.

For the week ending Friday, 23 November 2018, FNArena registered no less than 16 upgrades, of which four only went up to Neutral/Hold, against two lonely downgrades for Collins Foods and Wesfarmers. The latter was the sole recipient of a fresh Sell rating during the week, post Coles de-merger. The pain is compensated by the fact Wesfarmers also received one upgrade to Buy.

G8 Education was the only stock to receive two upgrades for the week; both went to Buy. Other recipients of new Buy ratings include ARB Corp, Carsales, Cochlear, Costa Group, Iluka Resources, Mineral Resources, and a2 Milk.

Amendments to valuations & price targets, and to earnings forecasts have become more equally balanced compared with the week prior when the balance was firmly in favour of negative adjustments, but the week's balance remains weighted towards falling targets and reduced earnings estimates nonetheless.

The top three in the table for positive revisions to price targets consists of G8 Education, Mineral Resources and Blackmores, which all enjoyed large increases. But the numbers are larger and broader based on the negative side where CYBG suffers the largest reduction (-23.7%), followed by Mayne Pharma, Xero, ARB Corp, and Stockland.

It's not quite that lopsided a picture for changes to earnings forecasts. On the positive side, we see large increases for Mineral Resources, TechnologyOne, Sydney Airport, NRW Holdings, and (surprise, surprise) CYBG. But there are equally large reductions on the flipside with Graincorp's forecasts falling by -78%, followed by Viva Energy, Mayne Pharma, Baby Bunting, Ardent Leisure, and others.

The local out-of-season reporting season continues, while others are issuing shorter-term trading updates. Luckily, for Australian investors, not every market update implies the need for a downward correction, though it has to be pointed out, the underlying trend remains for weaker earnings estimates and lower valuations and stockbroker price targets.

The large gap between recommendation upgrades and downgrades by stockbroking analysts suggests many a share price might already be reflecting more than what seems justified at this stage.

Upgrade

THE A2 MILK COMPANY LIMITED ((A2M)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/2/0

The company has indicated a solid start to the year, with revenue for the four months to October up 40.5%. Credit Suisse observes this is been driven by steady Australasian market share and progress on the Chinese infant formula business.

The company has also reaffirmed FY19 expectations. While the company's execution impresses the broker, risks remain with Chinese regulation. However, with the stock having sold off -20% from late August, Credit Suisse believes investors are being more than appropriately compensated.

Rating is upgraded to Outperform from Neutral. Target is raised to NZ$12.25 from NZ$12.20.

ARB CORPORATION LIMITED ((ARB)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/1/0

Last July saw the federal government ban gross combination mass (GCM) upgrades for new vehicles, meaning upgrades to vehicle weight/towing capacity, which ARB provides. Queensland has extended that ban to all vehicles. Citi believes the negative impact on ARB has been overdone by the market, given gross vehicle mass (GVM) upgrades on new vehicles are still permitted and GCM upgrades on used vehicles are still permitted in most states.

Share price weakness has taken ARB to a below average premium to the small industrials hence Citi upgrades to Buy from Neutral. Because ARB did not have products available in a timely manner for the new Hilux and Ranger releases, earnings trimmed and target falls to $19.58 from $22.35.

CARSALES.COM LIMITED ((CAR)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 7/0/0

While several areas of the company's business are experiencing challenges, Ord Minnett believes the core is solid and the long-term opportunity internationally is significant. The stock is now trading at a discount to peers and its long-term average forward PE.

The broker suggests the display advertising division has shown resilience in a changing market, while dealers continue to rely on carsales.com to sell their product, particularly the premium end of the market.

Ord Minnett upgrades to Buy from Hold. Target is lowered to $14.84 from $15.77.

COSTA GROUP HOLDINGS LIMITED ((CGC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/2/0

Macquarie believes the company is off to a solid start in FY19, as it has reiterated guidance for low double-digit growth. There is a significant 84% skew to the second half for net profit, the broker calculates.

Regardless, the company has a strong market position in attractive categories and a good track record of execution on growth projects.

Macquarie upgrades to Outperform from Neutral. Target is reduced to $7.60 from $8.15 because of changes on the back of higher long-term capital expenditure assumptions.

COCHLEAR LIMITED ((COH)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 2/3/2

Morgan Stanley estimates the current developed market penetration for Cochlear is around 5% and the capture of the annual incidence of severe hearing impairment is only 7%. The low penetration is explained by the weak relationship between hearing aid and cochlear implant audiology channels.

The broker believes Sycle will bridge this channel and sustain long-term market growth. Sycle is audiology practice management software used by around 7000 hearing aid clinics across the US, UK and Canada. This should increase the awareness of cochlear implants in retail channels by facilitating diagnosis of candidates.

Morgan Stanley suggests the valuation of this market-leading stock with life changing technologies has become more attractive. Rating is upgraded to Overweight from Equal-weight. In-Line industry view. Target is $175.

CLEANAWAY WASTE MANAGEMENT LIMITED ((CWY)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/2/0

Ahead of the company's investor day on 22 November, Credit Suisse upgrades to Outperform from Neutral and raises the target price to $2.05 from $1.90. The broker expects an upbeat presentation on the growth potential, operational gearing and Toxfree integration progress.

The broker has trimmed its FY19 earnings estimate by -2% on a higher D&A forecast and raised FY21 forecast by 13% on higher medium-term revenue growth and the benefit of operational gearing.

FLETCHER BUILDING LIMITED ((FBU)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/5/0

Credit Suisse suspects there is a risk the company's guidance for FY19 earnings of $630-680m will be de-railed, because a gradually softening core NZ business needs to be offset by a turnaround in Australia.

The broker further notes, while the company is positioning guidance as conservative regarding the Australian cycle, there is also margin pressure and investors will be looking for assurances there are no further structural pressures in FY19.

Credit Suisse takes the opportunity to pull back Australian forecasts. Rating is upgraded to Neutral from Underperform on valuation. Target is reduced to NZ$5.43 from NZ$6.01.

G8 EDUCATION LIMITED ((GEM)) Upgrade to Overweight from Equal-weight by Morgan Stanley and Upgrade to Outperform from Neutral by Macquarie .B/H/S: 5/1/0

It increasingly appears occupancy across the sector has bottomed sooner than anticipated. This, argue the analysts at Morgan Stanley, means earnings are picking up quicker. This, again, diminishes the risk of a further leg down.

Morgan Stanley upgrades to Overweight from Equal-weight. Price target jumps to $3.25 from $2.30. Industry view is In-Line. Earnings estimates have been slightly reduced for 2018, but increased for 2019.

Macquarie found the trading update slightly behind prior guidance, but the good news came through via improving occupancy trends. The analysts believe industry conditions are to remain tough, predominantly because of surplus supply, but they fully acknowledge there appears now mounting evidence of stabilising occupancy.

The latter suggests earnings may have bottomed across the industry. Macquarie upgrades to Outperform from Neutral, seeing further re-rating potential. Price target jumps to $3.15 from $2.08.

GROWTHPOINT PROPERTIES AUSTRALIA ((GOZ)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 0/1/2

The company has acquired 100 Skyring Terrace, Newstead, Brisbane. The purchase price of $250m reflects a 6.1% pre-cost yield.

Ord Minnett notes the share price has declined -4% since August, which leads to an upgrade to Hold from Lighten. Distribution guidance for FY19 remains unchanged at $0.23 per share.

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 5/1/0

While the share price has fallen more than -30% over recent months, Ord Minnett is focused on the valuation support and the options around Jacinth-Ambrosia. The broker believes the company has a number of levers that can be pulled if mineral sands markets remain tight.

If expansions at Sierra Rutile do not deliver sufficient return, investors should be able to participate in a cash flow windfall from controlling the world's best mineral sands assets in a tight market.

Rating is upgraded to Accumulate from Hold. Target is reduced to $9.80 from $10.80.

MINERAL RESOURCES LIMITED ((MIN)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 3/0/0

Albemarle will pay US$1.15bn to buy a 50% stake in a joint venture in the Wodgina hard rock lithium mine. Deutsche Bank notes Mineral Resources initially wanted to sell just 49% in order to have control of the asset.

Albemarle has stated it aims to produce at least 100,000tpa which suggests it may desire to replicate the design of its Kemerton facility. Either way, Deutsche Bank believes the company's experience in the industry will help develop and market the product.

The broker takes a conservative stance on the downstream asset potential, which is new for Australia, and believes there are implications for spodumene, hydroxide and the lithium market structure with this deal. Rating is upgraded to Buy from Hold. Target is $18.50.

STOCKLAND ((SGP)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/4/1

UBS remains cautious about the business, as residential conditions continue to deteriorate and there is a lack of liquidity in the retail portfolio. Still, increasingly, these themes appear to be reflected in the stock price.

The broker adjusts estimates to reflect a large second half skew but still forecasts growth in free funds of 5.8%. Rating is upgraded to Neutral from Sell and the target is reduced to $3.73 from $4.08.

SONIC HEALTHCARE LIMITED ((SHL)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/5/0

Credit Suisse observes, since the FY18 result, the stock has underperformed the market. Guidance has been reaffirmed for 3-5% growth in operating earnings, weighted to the second half.

While remaining cautious on the operating environment, particularly given softer Australian pathology volumes and regulatory headwinds in the US and Germany, the broker believes risks are now factored in.

Rating is upgraded to Neutral from Underperform. Target is reduced to $23.00 from $23.50.

WEBJET LIMITED ((WEB)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/2/0

After the strong FY18 result and even stronger run up in the share price, Credit Suisse believed Webjet was fully priced and downgraded to Neutral. Since then, the stock has materially underperformed and Webjet has also acquired Destinations of the World.

The trading update for FY19 has confirmed momentum is strong and the growth outlook attractive, hence Credit Suisse moves the rating back to Outperform. Target is reduced to $14.40 from $16.00.

WESFARMERS LIMITED ((WES)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/3/2

Credit Suisse is well aware of the slowdown in housing-related demand but believes the market is underestimating the opportunity for of value creation in the company's industrials business.

The recent contract between Woodside ((WPL)) and Perdaman highlights WA gas pricing is at a level where domestic downstream investment can be supported. Given existing infrastructure at Kwinana and a site at Burrup, Credit Suisse is surprised Wesfarmers was not party to that deal.

As for Bunnings, the broker expects growth from expanded ranges and online penetration and there is some buffer given the high exposure to the do-it-yourself market.

The broker also sticks its neck out, suggesting that over the next two years there will be significant expansion of Wesfarmers' ammonia manufacturing, while Blackwood's earnings should double over the next five years.

Rating is upgraded to Outperform from Neutral. Target is reduced to $34.07 from $49.47.

See also WES downgrade.

Downgrade

COLLINS FOODS LIMITED ((CKF)) Downgrade to Hold from Add by Morgans .B/H/S: 2/1/0

The company will report its first half result on November 28. Morgans expects a solid result, primarily driven by the annualisation of recent acquisitions in addition to underlying growth in the base business.

Morgans remains attracted to the growth prospects, including continued growth in KFC Australia and the ramp up of KFC in Europe as well as margin improvement.

Following the recent rally in the share price, the broker notes the stock is trading at a meaningful premium to the long-term average and downgrades to Hold from Add. Target is raised to $6.92 from $6.84.

WESFARMERS LIMITED ((WES)) Downgrade to Sell from Neutral by Citi .B/H/S: 2/3/2

In the wake of the Coles ((COL)) de-merger and the prior divestment of loss-making and/or capital intensive businesses, Wesfarmers is now around 60% exposed to Australian housing, via Bunnings and Kmart, Citi notes. There is little in the way of organic growth in the offing so the challenge will be to use the now well-stuffed balance sheet for diversification acquisitions.

If none present, a capital return might be the option. Until more is clear, Citi prefers the two supermarkets. Downgrade to Sell from Neutral. Target falls to $29.20 from $45.30 ex-Coles.

See also WES upgrade.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ARB CORPORATION LIMITED Buy Neutral Citi 2 CARSALES.COM LIMITED Buy Neutral Ord Minnett 3 CLEANAWAY WASTE MANAGEMENT LIMITED Buy Neutral Credit Suisse 4 COCHLEAR LIMITED Buy Neutral Morgan Stanley 5 COSTA GROUP HOLDINGS LIMITED Buy Neutral Macquarie 6 FLETCHER BUILDING LIMITED Neutral Sell Credit Suisse 7 G8 EDUCATION LIMITED Buy Neutral Macquarie 8 G8 EDUCATION LIMITED Buy Neutral Morgan Stanley 9 GROWTHPOINT PROPERTIES AUSTRALIA Neutral Sell Ord Minnett 10 ILUKA RESOURCES LIMITED Buy Neutral Ord Minnett 11 MINERAL RESOURCES LIMITED Buy Neutral Deutsche Bank 12 SONIC HEALTHCARE LIMITED Neutral Sell Credit Suisse 13 STOCKLAND Neutral Sell UBS 14 THE A2 MILK COMPANY LIMITED Buy Neutral Credit Suisse 15 WEBJET LIMITED Buy Neutral Credit Suisse 16 WESFARMERS LIMITED Buy Neutral Credit Suisse Downgrade 17 COLLINS FOODS LIMITED Neutral Buy Morgans 18 WESFARMERS LIMITED Sell Neutral Citi Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 GEM G8 EDUCATION LIMITED 83.0% 50.0% 33.0% 6 2 MIN MINERAL RESOURCES LIMITED 83.0% 50.0% 33.0% 3 3

BKL BLACKMORES LIMITED -20.0% -50.0% 30.0% 5 4 CYB CYBG PLC 67.0% 40.0% 27.0% 3 5 ARB ARB CORPORATION LIMITED 38.0% 13.0% 25.0% 4 6 CGC COSTA GROUP HOLDINGS LIMITED 50.0% 25.0% 25.0% 4 7 WEB WEBJET LIMITED 60.0% 40.0% 20.0% 5 8 A2M THE A2 MILK COMPANY LIMITED 67.0% 50.0% 17.0% 6 9 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 67.0% 50.0% 17.0% 6 10 GOZ GROWTHPOINT PROPERTIES AUSTRALIA -67.0% -83.0% 16.0% 3 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MYX MAYNE PHARMA GROUP LIMITED 33.0% 100.0% -67.0% 3 2 CKF COLLINS FOODS LIMITED 67.0% 100.0% -33.0% 3 3 XRO XERO LIMITED 17.0% 40.0% -23.0% 6 4 SCP SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP -60.0% -40.0% -20.0% 5 5 LNK LINK ADMINISTRATION HOLDINGS LIMITED 50.0% 56.0% -6.0% 7 6 ILU ILUKA RESOURCES LIMITED 75.0% 80.0% -5.0% 6 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 GEM G8 EDUCATION LIMITED 3.047 2.362 29.00% 6 2 MIN MINERAL RESOURCES LIMITED 19.833 17.833 11.22% 3 3 BKL BLACKMORES LIMITED 120.400 113.000 6.55% 5 4 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 2.007 1.982 1.26% 6 5 A2M THE A2 MILK COMPANY LIMITED 11.917 11.783 1.14% 6 6 GOZ GROWTHPOINT PROPERTIES AUSTRALIA 3.360 3.337 0.69% 3 7 CKF COLLINS FOODS LIMITED 6.507 6.480 0.42% 3 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 CYB CYBG PLC 4.945 6.483 -23.72% 3 2 MYX MAYNE PHARMA GROUP LIMITED 1.203 1.280 -6.02% 3 3 XRO XERO LIMITED 44.933 46.920 -4.23% 6 4 ARB ARB CORPORATION LIMITED 19.120 19.813 -3.50% 4 5 SGP STOCKLAND 4.050 4.184 -3.20% 7 6 CGC COSTA GROUP HOLDINGS LIMITED 7.515 7.703 -2.44% 4 7 ILU ILUKA RESOURCES LIMITED 11.000 11.240 -2.14% 6 8 WEB WEBJET LIMITED 16.416 16.736 -1.91% 5 9 LNK LINK ADMINISTRATION HOLDINGS LIMITED 8.416 8.555 -1.62% 7 10 COH COCHLEAR LIMITED 178.855 180.730 -1.04% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 MIN MINERAL RESOURCES LIMITED 333.100 134.433 147.78% 3 2 TNE TECHNOLOGY ONE LIMITED 18.300 15.850 15.46% 4 3 SYD SYDNEY AIRPORT HOLDINGS LIMITED 20.343 17.800 14.29% 8 4 NWH NRW HOLDINGS LIMITED 14.800 13.800 7.25% 3 5 CYB CYBG PLC 52.651 49.161 7.10% 3 6 BKL BLACKMORES LIMITED 457.020 448.500 1.90% 5 7 ALQ ALS LIMITED 36.198 35.577 1.75% 7 8 ARB ARB CORPORATION LIMITED 75.055 74.373 0.92% 4 9 AGL AGL ENERGY LIMITED 156.829 155.633 0.77% 8 10 SGP STOCKLAND 34.917 34.733 0.53% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 GNC GRAINCORP LIMITED 6.010 27.580 -78.21% 5 2 VEA VIVA ENERGY GROUP LIMITED 14.500 17.000 -14.71% 3 3 MYX MAYNE PHARMA GROUP LIMITED 4.593 4.990 -7.96% 3 4 BBN BABY BUNTING GROUP LIMITED 11.350 12.325 -7.91% 4 5 AAD ARDENT LEISURE GROUP 3.667 3.850 -4.75% 4 6 CL1 CLASS LIMITED 6.967 7.200 -3.24% 3 7 VRT VIRTUS HEALTH LIMITED 40.333 41.667 -3.20% 3 8 GEM G8 EDUCATION LIMITED 17.420 17.780 -2.02% 6 9 ORE OROCOBRE LIMITED 14.298 14.583 -1.95% 8 10 NSR NATIONAL STORAGE REIT 9.500 9.675 -1.81% 4 Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

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Uranium Week: Cold War

Longview Economics provides technical, fundamental and military reasons to be bullish uranium.

-History suggest price retracement -China drives nuclear power demand -US-China tensions drive nuclear arsenal build-up

By Greg Peel

From 2001 to 2007 the spot uranium price rallied 175% from US$7/lb to US$136-138/lb to mark one of the biggest asset price bubbles in recent history, Longview Economics notes. From that level to the 2016 trough it fell -89%.

In that time, the number of uranium mining companies has fallen from over 500 to just 20 currently. Rather than investing in future capacity, miners are shutting down capacity given the average cost of production is above the current spot price. A deteriorating supply outlook from other miners leads Longview to suggest a total loss of -17% of supply by 2020.

Technically Speaking

The past five decades have seen five major asset price bubbles and subsequent crashes - gold, silver, iron ore, the Japanese stock index and the Nasdaq. Three of those asset prices recovered 20% of the losses in six years and two recovered 50%.

Thus from a purely price perspective, suggests Longview, a significant recovery in the uranium price would not be unprecedented.

If we take the 2007 price of US$136/lb as the high and the December 2016 price of US$18/lb as the low, a 20% retracement would suggest a price of US$41.60/lb and 50% gives us US$77.00/lb. However, as the graph below shows, the uranium price already had one go at retracement the actual bubble-burst crash, back in 2011, reaching US$73/lb from the 2010 low of US$40/lb. That's 34%.

Then came Fukushima. If we take US$73/lb as the high and US$17/lb as the low, a 20% retracement would give you US$29/lb and 50% gives you US$45.50/lb. Today's spot price? US$29.00/lb, on industry consultant TradeTech's weekly indicator.

Fundamentally Speaking

In the past twenty years, global nuclear power generation has grown by 0.5% per annum. In the next twenty years it should grow by 2%, Longview suggests. The driving force will be an increase in Chinese nuclear power capacity of 35% over the next two years.

Between 2020 and 2025, another 91% of growth is expected. If new projects currently awaiting approval are added, China will account for 73% of global nuclear power growth by 2040, Longview calculates.

But it's not just about power generation.

The US navy aims to build three nuclear-powered submarines every year beyond 2021 (up from two currently - and building on their current fleet of 50 nuclear-powered subs), Longview notes. Similarly, in the last fifteen years, China has built 14 nuclear-powered submarines with 19 currently under construction (the number of nuclear subs is likely to grow further as China's influence becomes more global). India has recently commissioned its first nuclear submarine (the first country to construct a nuclear-powered sub that is not one of the five members of the UN's Security Council).

Global naval uranium demand currently accounts for 5% of total demand (down from 30% during the Cold War as Russia has since decommissioned most of its nuclear-powered naval fleet - a process which ended in 2012). Longview forecasts that share to increase to 11% by 2040.

Cold War

Last month President Trump announced the US would pull out of the Intermediate Range Nuclear Forces (INF) Treaty which limited the placement of missiles in Europe, which led the director of the Royal United Services Institute (RUSI) for Defence & Security to declare, "This is the most severe crisis in nuclear arms control since the 1980s".

If the INF treaty collapses, said Malcolm Chalmers, and with the New Start treaty on strategic arms due to expire in 2021, “the world could be left without any limits on the nuclear arsenals of nuclear states for the first time since 1972”.

Global geopolitical tensions are growing. On that basis, nuclear capacity demand will also grow.

Uranium is increasingly likely to serve as a key hedge against rising tensions, Longview believes.

The Market

Last week saw TradeTech’s weekly uranium spot price indicator fall -US10c to US$29.00/lb. Due to the Thanksgiving holiday the consultant did not publish a weekly report.

TradeTech’s term price indicators remain at US$30.00/lb (mid) and US$31.00/lb (long).

The Short Report

Guide:

The Short Report draws upon data provided by the Australian Securities & Investment Commission (ASIC) to highlight significant weekly moves in short positions registered on stocks listed on the Australian Securities Exchange (ASX). Short positions in exchange-traded funds (ETF) and non-ordinary shares are not included. Short positions below 5% are not included in the table below but may be noted in the accompanying text if deemed significant.

Please take note of the Important Information provided at the end of this report. Percentages in this report refer to percentage of ordinary shares on issue.

Stock codes highlighted in green have seen their short positions reduce in the week by an amount sufficient to move them into a lower percentage bracket. Stocks highlighted in red have seen their short positions increase in the week by an amount sufficient to move them into a higher percentage bracket. Moves in excess of one percentage point or more are discussed in the Movers & Shakers report below.

Summary:

Week ending November 22, 2018

Last week the ASX200 suffer a second wave tumble within its correction period, bottoming out on the 21st.

There was not a great deal of movement in short positions last week with the exception of a couple of clangers. Given they are clangers, and given recent data issues, I'd suggest we take them with a grain of salt until ASIC data can confirm their veracity next week.

Shorts in resource sector contractor Monadelphous ((MND)) have jumped to 11.1% from 6.9% the week prior. The company did guide last week to a revenue decline of -10% in FY19 but this was not as bad as brokers feared. LNG projects are nearing completion and there will be a gap to WA iron ore ramp-up. The stock price barely moved on the update.

Shorts in vitamin/supplement peddler Blackmores ((BKL)) have jumped to 9.6% from 6.5%. Blackmore shares shot up last week when China announced the new regulatory regime kicking in on January 1st would be less disruptive for importers like Blackmores than might have been feared.

While at a stretch we could justify sharp moves in short positions for the two, I'm going to reserve judgement until next week.

Otherwise we might note some new additions last week at the bottom of the table.

ARB Corp ((ARB)) has appeared to join sector colleague Automotive Holdings ((AHG)). Perpetual ((PPT)) is back, at 5.0% shorted, noting peer IOOF ((IFL)) is 10.5% shorted.

Bendigo & Adelaide Bank ((BEN)) has also made a reappearance, while to my knowledge, debt collector Collections House ((CLH)) is making a debut. At least in more recent times.

No Movers & Shakers this week given data uncertainty.

Weekly short positions as a percentage of market cap:

10%+

JBH 19.8 SYR 16.2 GXY 15.8 ORE 14.0 ING 13.0 MTS 12.5 BWX 12.4 IVC 11.8 MYR 11.2 NXT 11.1 MND 11.1 DMP 11.0 IFL 10.5

In: MND Out: CSR

9.0-9.9

NUF, SUL, CSR, BKL, GEM, SDA

In: CSR, NUF, BKL 8.0-8.9%

HVN, NAN, BAL, NWS

Out: NUF

7.0-7.9%

KDR, PLS, FLT, APT, AMC

In: APT, AMC Out: NEC

6.0-6.9%

MSB, AMP, BOQ, NEC, KAR, CGF, GMA, AAC, CCP, HT1

In: NEC, CCP Out: BKL, MND, AMC, APT, MLX

5.0-5.9%

BIN, BGA, SEK, CLQ, MLX, PTM, RWC, A2M, MOC, CAB, SIG, AHG, DHG, ARB, CLH, BEN, SGM, RSG, PPT, IGO

In: MLX, ARB, CLH, BEN, PPT Out: CCP, LYC, RCR, VOC

Movers & Shakers

See above.

ASX20 Short Positions (%)

To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position "naked" given offsetting positions held elsewhere. Whatever balance of percentages truly is a "short" position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, "short covering" may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to "strip out" the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio - a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option ("buy-write") position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a "long" position in that stock.

Another popular trading strategy is that of "pairs trading" in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a "net neutral" market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are "short". Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

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The Wrap: Housing, Utilities & Regional Banks

Weekly Broker Wrap: housing; consumer; utilities; and regional banks.

-Evidence more people considering house purchases as affordability improves -Yet, falling house prices could drag on consumption -Pressures on households signal retailing becoming more challenging -Winners from ALP policy likely to be network services, industrial consumers and existing renewable power plants -Bell Potter suggests time is ripe for a Suncorp bank /Bendigo & Adelaide merger

By Eva Brocklehurst

Housing

ANZ economists find no evidence the pace of decline in Sydney and Melbourne house prices is easing. Nevertheless, the current environment is not all bad and risks are not all on the downside. A characteristic of the downturn is that it is unusually led by prudential tightening. It is difficult to ascertain just how long banks will continue to implement further credit tightening, or if more will flow from the final report from the Hayne Royal Commission.

Moreover, the federal election next year could mean a change of government, with adjustments to negative gearing and capital gains tax. The risks on the upside include the possibility that a competitive response across lenders limits tightening of credit or even unwinds some recent changes.

Improved affordability could also push buyers back into the market. Lower house prices are positive from an affordability point of view and the economists find evidence that people are considering now is a good time to buy.

Moreover, the economists assess dwelling price adjustment is coinciding with falling unemployment and rising household income. The housing market is not expected to stabilise until early in 2020 and the economists believe it will be difficult for the Reserve Bank to tighten monetary policy until some time after that.

UBS believes falling house prices are likely to drag on consumption, albeit with a lag of more than six months. The broker does not believe a recovery in income will be enough to offset the fading household wealth affect.

The broker's analysis finds new evidence of a strong wealth affect for richer and older households, with the drop in the savings rate to a post-GFC low driven by the richest 40% of households and older households aged over 55. This indicates a -10% fall in home prices alone could reduce nominal consumption by -2% in coming years.

Consumer

UBS observes retailers are becoming more cautious and while this is yet to show up in official statistics, Christmas is likely to be challenging. The slowdown is stemming from pressures on household cash flow, softer housing and a tightening of credit.

If consumers become more cautious and save, retail spending will slow. A return to the 10-year average savings rate would drive more than -10% reductions to the broker's FY21 estimates for discretionary retail earnings (EBIT).

The grocery market appears more positive because it is now more rational. UBS reduces FY19-21 discretionary estimates by -3-4% and lifts supermarket estimates by 1-2%. The broker upgrades Woolworths ((WOW)) to Buy as the outlook for supermarkets is improving.

Negative aspects for discretionary earnings appear priced in and Premier Investments ((PMV)), Super Retail ((SUL)) and Bapcor ((BAP)) are all upgraded to Buy. Breville ((BRG)) and Myer ((MYR)) go the other way and are downgraded to Sell because of housing exposure risk for the former and high levels of operating leverage for the latter.

Utilities

In view of the Australian Labor Party's proposed energy policy, should it win government in 2019, Ord Minnett believes the focus is on the right aspects of transition, including an increase in renewable power generation, an acceleration of residential and utility-scale storage, further augmentation of the power grid and improvements in energy use.

The targets appear ambitious, nonetheless, and the broker finds it difficult to envisage the goals being achieved. The winners are likely to be network service providers, industrial consumers and existing renewable power plants.

Losers could be smaller retailers and gas producers.

Key tenets of the policy include the reintroduction of the National Energy Guarantee in its full form and the target of a -45% reduction in economy-wide emissions by 2030 from 2005 levels.

The policy is also targeting 1m household battery installations by 2025 and, in order to facilitate the roll-out of batteries, a $2000 subsidy is proposed for up to 100,000 households with a total pre-tax income of $180,000. There will also be another $100m targeted at renters and low income households to access the benefit of renewables.

Policy proposes a modernisation of the transmission and distribution network through a $5bn fund. The ALP also proposes $10bn in funding over five years to support large-scale renewable generation and storage. A national interest test is also proposed for new gas projects.

Citi believes the new policy suite, while maintaining overall targets, may differ in implementation with a new direct investment program possibly taking the weight of emissions policy in the sector in the event the NEG does not gain Liberal support.

A shift to a direct investment mechanism raises questions for investment certainty but the broker acknowledges the impacts of the new program will not be fully understood until a new government has time to work through the details. Citi's analysts have dismissed the 50% renewable energy target as an investment risk for the present, because of existing state-based schemes. There was no detail on the policy for the larger economy.

The broker suggests investors should not be anticipating a carbon tax or full carbon price, while a wider emissions trading scheme will likely consider a set of trajectories which trend down over time, with companies only liable for their emissions above these trajectories.

It is also unlikely, in the broker's view, a default price in retail markets would affect earnings given the price of existing contracts relative to competitors. However, if prices for higher-priced contracts fell by -10% this could have a -5% earnings impact for both AGL Energy ((AGL)) and Origin Energy ((ORG)).

Regional Banks

The lack of scale in regional banks makes it difficult to operate in a tough environment, Bell Potter observes. Yet creating of a meaningful challenger regional bank makes perfect commercial sense in the wake of the Hayne Royal Commission revelations about how little competition really exists.

The best combination, in the broker's view, is a merger of Bendigo & Adelaide ((BEN)) and Suncorp's ((SUN)) bank. Regionals have traditionally lagged major banks in productivity and efficiency and the cost benefits from such a merger would go a long way to mitigating this, in the broker's opinion.

The two banks are highly compatible in terms of culture, understanding of regional markets and familiar with multi-brand distribution. This would also provide scale for specialist segments such as agribusiness and small-medium enterprises as well as geographic diversity.

The broker would not anticipate any concerns from the Australian Competition and Consumer Commission in such a merger, given the current need for a trusted community-based challenger bank.

The broker's numbers suggests Suncorp could extract a premium of at least 20% for its bank and return surplus capital to shareholders based on a 50% share of synergies. The benefits to Bendigo & Adelaide shareholders would include material accretion, growth and valuation upside.

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FNArena is proud about its track record and past achievements: Ten Years On

Outlook 2019: The 'Bear' That Keeps On Rolling?

In this week's Weekly Insights (published in two parts):

-Late Shock: 2018 Is The Annus Horribilis -Outlook 2019: The 'Bear' That Keeps On Rolling? -The Curse Of The Magazine Front Cover -All-Weather Portfolio Observations And Considerations -Gartman's Rules Of Trading -Final Weekly Insights For 2018 -Rudi On TV -Rudi On Tour

[Non-highlighted parts will appear in Part Two on Friday]

Late Shock: 2018 Is The Annus Horribilis

By Rudi Filapek-Vandyck, Editor

One expert voice who should have been mentioned more in my writings throughout the year is Morningstar's head of equities research in Australia, Peter Warnes. From the start of the new calendar, and with most investors and commentators preparing for yet another year of abundant investor cheer, Warnes stuck to his view that 2018 would not be a year of joy for equity investors.

For nine long months it seemed he was just another "bear" who would be forced to eat his words by year end. But momentum did turn, eventually, and when it did there was nothing to keep share prices and indices in positive territory for the year.

As I pointed out two weeks ago, Warnes is anticipating the end of the bull market with a classic -15%-20% retreat. For those who missed it, here's the exact quote:

"The market's enthusiastic response to the US midterm elections does not alter the fact macros are either peaking or deteriorating.

"The bounce in equity markets provides another, possibly the last opportunity, to reduce exposure to stretched equities before a traditional end-of-bull market correction of 15-20% proportions occurs."

All kudos to Warnes for sticking to his contrarian view, even when share markets in the US and in Australia kept on rallying to a new high, seemingly proving him wrong. But I very much doubt whether Warnes was realising at the start of the calendar year how bad exactly things would look eleven months down the track.

And let there be no mistake: 2018 truly and genuinely has proved to be an annus horribilis for investors globally.

Look no further than the 70 asset classes monitored by analysts at Deutsche Bank. As the end of November approaches, 90% of all these assets have posted a negative total return for the year to date. This, according to Deutsche Bank, has never happened before; not in the 1920s or 1930s, not in the 1980s, not even in 2000-2003 or 2008-2009.

Deutsche Bank data goes back to 1901.The previous high was in 1920, when 84% of 37 asset classes were negative. In 2017 only 1% of asset classes delivered a negative return, which was the record low of all times.

Outlook 2019: The 'Bear' That Keeps On Rolling?

Looking back over the past twelve months, most ASX-listed stocks have lost -15%-20% in value; just not all at the same time. As predicted by Morgan Stanley strategists, 2018 saw a Rolling Bear Market sweep through equities, whereby sector after sector was being pummeled, until there was only one left standing.

And when technology growth stocks in the US finally keeled over in September, there was no rotation into those stocks that had previously been hit because the reason why -concerns about global growth outlook and corporate profit margins- equally applied to banks, retailers, car dealerships and producers of energy and industrial materials.

A lot has been written and said about healthcare stocks and High PE growth stocks, and how they have fallen since August, but one easy to make observation is that performance of stocks like CSL ((CSL)) and ResMed ((RMD)) is actually still positive year to date, which is not something that can be said of, say, large mining companies (BHP is an exception), energy producers or major banks.

Now that we have completed the full Roll Over, and every part of the share market has been affected at least once, investors find themselves confronted with a whole lot of questions, and that one big dilemma: what next?

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Last week, the Alphinity Global Equity Fund organised a close-up meeting with journalists to discuss performance and views for the year(s) ahead. Some among you might remember portfolio manager Nikki Thomas from when she represented Magellan.

The ruling theme at the meeting was probably best summarised by Macquarie global strategists the following day: "Investors are facing one of the most complex environments in years". It just so happens both teams of experts have drawn the same conclusion. Time to dial back on too much risk in investment portfolios.

It's plain impossible for investors to find all the necessary answers right now, and then get it right in portfolio composition as well. For both teams of investment experts, the withdrawal of global liquidity by central banks, led by the US Federal Reserve, is one major uncertainty the full impact of which cannot be accurately predicted this early in the process.

Combined with all other (major) uncertainties that might impact on risk assets in the two-three years ahead, the team at Alphinity has started shifting portfolio allocations towards big, international, solid, quality companies, including The Walt Disney Company and McDonald's.

Given the fund's mandate requires it to stay at least 80% invested in equities, these types of companies are seen as the least risky within an environment that awaits of slowing global growth, rising interest rates, lots of debt and leverage, and financial wizardy all around (from passive investment products such as ETFs to highly sophisticated algorithms and robots).

Equally important, maybe, is that portfolio managers Thomas and Lachlan MacGregor are aiming to stay style-neutral. So no bias towards "value" or "growth"; just less-risky growth at reasonable valuations. As such, the portfolio also contains names such as Alphabet (Google), Diageo, Microsoft, Bank of America, Target, Royal Dutch/Shell, and SAP.

The global strategists at Macquarie summarise their preferences as "quality" and "sustainability". In their view the current path of gradual policy normalisation by the Federal Reserve will become unsustainable "at some point" in 2019, but until then conditions will likely remain tough for Emerging Markets. Once the US Fed changes course, however, watch this space (with most distressed offering highest potential, including Indonesia and Philippines).

Macquarie has a third pillar for investing in tomorrow's world of inconsistencies and macro uncertainties: specific global thematics, such as "Replacing Humans" (through robots, industrial automation and artificial intelligence), "Opium of the People" (gaming, casinos and virtual reality), and "Disruptors & Facilitators".

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Strategists at RBC Capital in Canada don't believe investors should worry about worst case scenarios, like an economic recession, just yet. They too predict the US Fed will pause in its tightening in 2019, while the economy and corporate profits in the US will slow down, but still grow at a reasonable pace.

No doom and gloom scenarios thus, but quite likely heightened volatility, thus RBC advocates investors trim their exposure to equities somewhat.

Enter Goldman Sachs, whose US strategists agree with all of the above. Goldman Sachs sees potential for mild gains, net, for US equity markets, but likely with a lot of volatility along the way. Hence, here too, the recommendation is to scale back portfolio exposure at this stage while at the same time advocating a shift towards higher quality companies.

In terms of increasing a portfolio's defensiveness, Goldman Sachs' US team recommends being Overweight Info Tech, Communication Services, and Utilities, while Underweight Cyclicals. Investors should focus on High Quality stocks, which in Goldman Sachs' world is determined by five key metrics: strong balance sheet, stable sales growth, low earnings (EBIT) deviation, high Return on Equity (ROE), and low drawdown experience.

Goldman Sachs' view on 2019 can easily be summarised via quoting some of the chapter titles in its 2019 US equity outlook report: "Return of risk means high quality stocks should outperform"; "Less favorable outlook for Growth, stick with quality"; "Decelerating S&P 500 EPS growth through 2020".

The list of High Quality US stocks contains one familiar name; ResMed, which is listed in the US.

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Over in Australia, the local team at Goldman Sachs agrees with their US colleagues it remains too early to turn too defensive, simply because there is as yet no recession on the horizon. Equity markets are undoubtedly facing a more uncertain and challenging outlook, but that should be reflected in share prices already, is the view at Goldmans.

The recommendations for Australian investors is to keep a "moderate cyclical bias" while also making sure you hold a decent number of "select defensive exposures".

As such, Goldman Sachs is recommending to be Overweight both Mining and Energy, with preferences for BHP Group ((BHP)) and Rio Tinto ((RIO)) and for Origin Energy ((ORG)), Woodside Petroleum ((WPL)) and Beach Energy ((BPT)) for the second category.

The so-called "reflation trade" has had a rather checkered track record these past few years, but Goldman Sachs remains a believer and thinks it's best investors stick with the theme. Commodities have typically been a strong inflation hedge late in the cycle, the strategists advise. In addition, Resource stocks are one rare pocket in the market that screen as "cheap", while also seen offering positive earnings momentum.

Goldman Sachs also suggests investors should still be Overweight Offshore Earners with James Hardie ((JHX)), News Corp ((NWS)) and Aristocrat Leisure ((ALL)) its three top recommendations. Stay Overweight Quality is the final positive piece of the puzzle. In the strategists' lingo this "quality" translates as firms with stable earnings and stronger balance sheets that do not carry high levels of gearing. Thus instead of REITs and Infrastructure stocks, traditionally perceived as being "defensive", the strategists point in the direction of AGL Energy ((AGL)), Orora ((ORA)), Crown Resorts ((CWN)), Suncorp Group ((SUN)), and the freshly de-merged Coles ((COL)).

Goldman Sachs does not like Consumer Cyclicals and REITs with explicit reference to the domestic housing cycle. Growth Stocks are equally in the naughty corner as rising interest rates will likely continue to compress valuations of so-called long-duration stocks, but the strategists also believe investors have seemingly grown complacent about the "quality" of many of the (former) market darlings.

Growth stocks that are still seen trading at stretched valuation multiples include NextDC ((NXT)), Domain Holdings Australia ((DHG)), Tabcorp Holdings ((TAH)), WorleyParsons ((WOR)), Bega Cheese ((BGA)), Cleanaway Waste Management ((CWY)), Steadfast Group ((SDF)) and Afterpay Touch ((APT)).

I personally remain a staunch sceptic about the idea of a reflation trade proving anything other than a temporary phenomenon, as it has done on every single occasion to date, plus I believe high quality growth stocks should remain a staple in every investor's portfolio, with the explicit notion that "quality" (or the lack thereof) has now become a decisive feature for portfolios and investment decisions.

See also Part Two of this Weekly Insights in which I will explain in more depth the portfolio decisions that have been made running the FNArena/Vested Equities All-Weather Model Portfolio.

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Calendar 2018 has only five more weeks left, and Morgan Stanley remains convinced the theme of the Rolling Bear Market will continue to apply into the new calendar year, but next year the Roll-On will trigger some major reversals in trends that seem firmly established this year.

As such, Morgan Stanley's forecasts are:

-for a weakening US dollar (the reserve currency is expected to post a cyclical peak) -yields in the US and Europe to converge (which means: positive returns will be delivered by US Treasuries; US 10-year yield to drop to 2.75% in 2019) -assets in Emerging Markets will stage a come-back (a view Macquarie strategists also adhere to) - including EM credit -US equities and high yield will underperform (the reign of US equities is over with Morgan Stanley essentially predicting a flat return) -"Value" stocks will finally outperform "Growth"

With a lower USD and lower US bond yields anticipated, we can all see how commodities, including energy and gold, can potentially move back into investors' favour. Mind you, things are a bit more complicated for Australian investors as one of 2019's Conviction Calls is for a weaker Australian dollar. Short term, the advice is to be Neutral equities and bonds, Underweight credit and Overweight Cash.

Final Weekly Insights For 2018

This is the final Weekly Insights for calendar 2018. I hope you all enjoyed reading my weekly snippets and analyses as much as I did researching and writing them. It's been a long and eventful year, and not just because of share market shenanigans at the very end of it.

During my presentations and media appearances this year I have felt on numerous occasions a genuine connection with investors in that they sensed the overall context for the share market was changing, but nobody had as yet properly explained the how and why of it all.

At FNArena, the team has continued developing new additions and further improvements to our service. Last week we launched ESG Focus, a new dedicated segment to our news service. We have one more fresh initiative up our sleeves before year-end holidays kick in.

That'll be my final-final effort for the year, before I retreat to spend some time near the water, hiding from the sun, catching up on a million things left to do, including reading some more, and recharging the inner battery.

I sincerely hope 2018 hasn't been too much of a disappointment, and that our efforts at FNArena, including my personal observations and insights, have made a significant and positive contribution. Next year will be different again, as is always the case. May Dame Fortuna smile graciously upon you all.

Weekly Insights will return at the end of January. Till then take care, and all the best. We shall continue this relationship in 2019, hopefully.

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My weekly appearance on Your Money (the channel formerly known as Sky News Business) is now on Mondays, midday-2pm.

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Rudi's View: All-Weather Portfolio Considerations

In this week's Weekly Insights (this is Part Two):

-Late Shock: 2018 Is The Annus Horribilis -Outlook 2019: The 'Bear' That Keeps On Rolling? -The Curse Of The Magazine Front Cover -All-Weather Portfolio Observations And Considerations -Gartman's Rules Of Trading -Final Weekly Insights For 2018 -Rudi On TV -Rudi On Tour

[Non-highlighted parts appeared in Part One on Thursday]

The Curse Of The Magazine Front Cover

By Rudi Filapek-Vandyck, Editor

One of the old beliefs on Wall Street is that pivotal points of reversal in market trends are usually preceded by front covers of popular magazines. The most famous example of this adage remains the "death of equities" declaration by Business Week in August 1978, roughly three years before one of the strongest bull markets announced itself.

This time around, Wall Street eyes are looking back at the cover of The Economist which in early November last year declared A Bull Market In Everything!

To be fair to the team at The Economist, that declaration went in hand with asking the question: when will it all end?

All-Weather Portfolio Observations And Considerations

Over the past four years equity markets have experienced three serious pullbacks. First there was the gradual deflation that started in late May 2015. It was preceded by nearly six months of piling into everything -anything- that paid out dividends and represented "yield". The downturn that subsequently unfolded simply kept on going until a capitulation bottom was reached in February the following year.

Next came the Big Portfolio Switch late in the third quarter of 2016. Most Australian investors won't have too much recollection about this particular drawdown because banks and resources became the new momentum trade and most portfolios would have been overweight these two sectors.

Next we had a bit of a wobble in February-March this year, but as things turned out, that really was just a blip ahead of what would descend upon us in October-November. With only five weeks left until 2019 arrives, the Australian share market is in negative territory year-to-date, and (potentially) about to accumulate double digit percentage losses over three consecutive down-months.

Ignoring the pain, the angst and the portfolio losses for a moment, the key lesson to learn from all three experiences is that every time, really, is quite different. And what makes each period of rough share market weather unique in its own right are the following three factors:

-the reason(s) for the shift to a downward trend -whatever happened prior -portfolio positioning of large institutional investors

Given we are living through a period in which most investors, consciously or otherwise, are trend followers, one might be inclined to think factors two and three are tightly intertwined, which is often the case. But back in 2015 there was no sudden switch in portfolio allocations which meant the pullback was gradual, drawn out and relentless nevertheless, but many an investor had been positioning anti-consensus and was simply feeling a lot of pain on the way down.

By late 2016, however, just about everybody had become overweight cycle-agnostic stocks and expensive defensives. Equally important, there was a genuine general belief that newly elected President Trump was about to ignite the late cycle reflation trade. And thus the switch was violent and relatively quick, but equally relentless.

By now we are late in 2018. September (-1.78%) was mildly challenging, while October (-6.1%) took no prisoners and November (-2.14%, thus far) failed to deliver the widely anticipated relief rally. Three negative months in a row. Most assets down year to date, including most equities in Australia. Time to sit up and take note, if one hasn't already.

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Observation number one, and this one cannot be highlighted soon enough: holding cash has really made a key difference throughout the extreme day-to-day volatility over the past nine weeks. This was not as much the case back in 2015 and 2016. Gold has, sort of, stood its ground throughout the turmoil, but that's the best it could do and it equally showed some wobbles at various times. The same can be said about government bonds, but inside the share market there have been very few places to hide and not feel the pain of broad selling pressure.

Traditional safe havens such as Woolworths ((WOW)), Transurban ((TCL)) and Sydney Airport ((SYD)) initially were sold down as well, if they hadn't fallen quite noticeably throughout September already, but they regained their status in November as amidst the global share market turmoil bond yields started dropping. (When institutional investors shift funds into bonds prices rise, which lowers the yield, with positive read-through for bond proxies in the share market).

Only few stocks have managed to keep the sellers at bay from the get-go, posting gains along the way, when others kept falling. Stocks like Goodman Group ((GMG)) and Charter Hall ((CHC)) certainly picked their opportunity to shine when all got pulled into darkness, but equally so stocks including Alliance Aviation Services ((AQZ)) and TechnologyOne ((TNE)).

Not all of these performances would have been predicted beforehand. In fact, on my daily observations most movements in share prices have been irrational, illogical and inexplicable, other than that selling begets more selling and investors simply were looking to pull cash out of the falling market.

Hence there have been quite a number of utter surprises, both positive and negative. Which just goes to show, when panic buttons are being pressed and withdrawing liquidity becomes the dominant force du jour, one simply cannot be too confident about what likely comes next and what won't happen.

Part of the reason as to why this withdrawal has been so chaotic, and so broad-based, even when only a selection of stocks had been carrying the index to a new cycle high in Australia, is because of the multitude in factors that impacted, all pretty much around the same time. This is not simply about the Federal Reserve tightening rates and US bond yields rising. This is equally about global economies losing momentum while there seems no relief in tensions between Trump and Beijing. This is also about market consensus probably being too optimistic on corporate profit margins, and about growth stocks becoming a well-overcrowded trade, while the valuation gap between high growth and low growth stocks -"Growth" versus "Value"- had once again stretched to extreme.

In Australia, worries about Emerging Markets falling and overcooked US share market sentiment mixed with a deflating housing market, and ever more bearish forecasts, and growing signals the consumer is starting to hoard instead of continuing to spend. More revelations about the banks at the Royal Commission and a seemingly dead men walking federal government in Canberra, while many an investor worries about Labor's intention to fix the budget through reining in negative gearing and franking credit cash repayments, further add to the quagmire.

This is equally about the sum total of extreme liquidity injections by the world's major central banks coming to an end, with every investor worth his salt knowing full well this never before seen injection has pushed up asset prices around the world over the years past. But now global liquidity is pulling back, what will be the exact effect on global assets? Then there is that growing sense this could be the final phase of this cycle.

Combine all of it together and it is not difficult to see why investors are uncertain and worried, and why many an expert preaches caution and restraint. Actually, if one is brutally honest about it all, the first question to ask is why did it take this long for the US share market to finally take notice?

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We can ask the question, but the answer doesn't really matter. Markets finally woke up to the serious challenges that lay ahead, and they responded with a vengeance. Now the world and its outlook have materially changed. For investors it's best to take notice, and respond responsibly.

The FNArena/Vested Equities All-Weather Model Portfolio had been outperforming the broader index, while at the same time throughout the second and third quarter the percentage of cash held in the portfolio increased steadily. At first it seemed this caution had been applied too early, but by the time October arrived it became instantly clear the level of cash was nowhere near high enough. So we increased it.

I advised FNArena subscribers they should do the same. The logical way to achieve this is by getting rid of failures and disappointments. Most investors "take profits", which means they sell off winners and keep the losers. I, however, am convinced the best way forward is by owning higher quality, solid, reliable and sustainably growing companies. In my experience, these are most likely among the outperformers in the local share market.

The Portfolio only had a few genuine disappointers, so a general review and re-allocation had to take place. It is here where past experience mixes with share market "science" and personal assessments. Overlooking the portfolio as a whole, the highest priority is not whether one is attached to a certain stock or not, and certainly not what price had been paid for it. The highest priority is freeing up cash.

The aim is to reduce risk. So you sell/reduce exposure to leveraged balance sheets with lots of debt (if you happen to own such stocks), in particular small cap stocks and cyclicals. Large cap stocks might fall less than smaller cap stocks. In the latter case: watch out for the drying up of liquidity or the departure of one large shareholder.

Companies that do not make profits (as yet) are most vulnerable, in particular if they are small. Don't stick with companies going through a bad news cycle (the last thing you want is them issuing yet more bad news). The most important thing is to go through the portfolio on a case by case basis, every time trying to assess what type of risk are we taking on in this particular case. Part of my consideration was to trust in the quality of out-of-season financial results reporters in that they were most likely to announce good news. Indeed, good news is what most have reported, but in many cases this did not stop the selling, or sometimes only briefly.

One notable exception has been Appen ((APX)) which is acting like a stock reborn after management upgraded guidance for the year in mid-November. Another portfolio member that has put in a remarkable performance, helped by yet again a high quality growth performance, is the aforementioned TechnologyOne. Note that out of caution, the portfolio exposure to both had been reduced, as part of the overall de-risking. Decisions do not have to be 100% in or out. It is easier to buy more shares at a lower level than it is to add from scratch again (it's how the human brain is wired).

A number of other stocks saw their initial rallies upon good news being used as an easy source for more profit taking, including REA Group ((REA)) and ResMed ((RMD)). Others held up well initially, but then succumbed to that same principle of becoming logical targets for profit taking. Here I would certainly include Bapcor ((BAP)), DuluxGroup ((DLX)), Xero ((XRO)), and Orora ((ORA)).

Certainly, a large contingent of stocks has fallen significantly more than I thought they would, and way more than seems justified even if profit forecasts for the year ahead must come down. In cases like Macquarie Group ((MQG)) and Link Administration ((LNK)) the world out there is simply showing its ignorance and lack of specific knowledge because both companies are not nearly as much aligned with the general status in the share market, but during times of panic and turmoil there is no opportunity to set up a debate with the sellers.

And other investors tend to think if the share price drops it must be for good reason, of course. One of the most difficult decisions to make during the past two months is to sit quiet and not re-allocate cash back into the share market. We are far from convinced that the end of turmoil is near. This can potentially get a lot nastier, still. Most importantly, there will be rallies here and there (there always are), but it seems highly unlikely this new phase for global risk assets will be over soon.

The down trend between May 2015 and February 2016 ultimately lasted nine months with a sharp sell-off in the final two months. The portfolio switch post Trump election lasted five months before selling down stocks like CSL ((CSL)), Aristocrat Leisure ((ALL)) and NextDC ((NXT)) reversed into new uptrends.

Having said so, we did buy in a few extra shares near what might have been the market bottom (for now) recently, and among the opportunities we jumped upon were Macquarie, Link Administration, Bapcor, Carsales and Orora. Prior to last week, circa 30% of the All-Weather Portfolio had no exposure to the share market. On my assessment, this has been one decisive factor in keeping overall losses contained, and smaller than the broader market.

That percentage has now declined to circa 25%, which means 75% is invested in the local share market in a basket of 20+ stocks that have no resemblance to any of the market indices. While we have taken the view the changing outlook should not be underestimated, we are also of the view this does not by default mean we are staring at a repeat experience of 2008-2009 or 2000-2002. It doesn't even have to be a repeat of 2011-2012 or of 2015-2016.

But neither of such scenarios should categorically be excluded at this stage and we remain prepared to further reduce risk if circumstances so require. In the meantime, we agree with other voices elsewhere two months of (near) persistent weakness for the local share market has made a large number of stocks look very attractive. Instead of looking through a list of stocks that have fallen the most, as is the inclination for many, I'd strongly suggest investors continue de-risking their portfolio.

In terms of fresh opportunities to take advantage of, why would any investor with a longer term horizon now ignore the fact that high quality, less risky, solid and reliable performers in large numbers have sold off -15%, and more? This is where the real opportunity lies in today's share market.

Paying subscribers have access to my research into All-Weather Performers, including a dedicated section on the FNArena website. I strongly suggest this becomes your new Ground Zero for the future.

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In terms of All-Weather Portfolio performance, October saw a loss of -4.71% compared with the -6.05% that befell the ASX200 Accumulation index. Thus far in November, with three more trading sessions left, the loss is -1.86% for a combined -6.57% for the past eight weeks. The ASX200 Accumulation index has thus far added -2.14% for a combined -8.19%.

Calendar year to date the index is down -2.65% and for the running financial year it is down -6.65%. The All-Weather Portfolio has remained in positive performance territory throughout calendar 2018, albeit with a non-spectacular +1.17% year-to-date (still marking a noticeably better performance); for the financial year to date the performance number is -5.32%.

Late addition: As we are about to publish on the final trading day of November, it appears the All-Weather Portfolio might just escape a negative performance for the month, unlike the broader index.

Gartman's Rules Of Trading

He may not be perfect in all his views and calls, but Dennis Gartman still carries more day-to-day hands on financial markets experience than most of us have aged since birth. Below are his Rules of Trading, as updated and released at the end of last week.

THE RULES OF TRADING - 2018:

1. NEVER, EVER, EVER ADD TO A LOSING POSITION: EVER!: Adding to losing positions will eventually lead to ruin. All great market humiliations are precipitated by someone doing so such as the Nobel Laureates of Long-Term Capital Management, Nick Leeson, Jon Corzine and now optionsellers.com.

2. TRADE LIKE A “MERCENARY:” As traders/investors we are to fight on the winning side of any trade. We are pragmatists first, foremost and always with no long-term “allegiance” to either side.

3. MENTAL CAPITAL TRUMPS REAL CAPITAL: Capital comes in two types: mental and real. Holding losing positions diminishes one’s finite and measurable real capital AND one’s infinite and immeasurable mental capital always and everywhere.

4. WE ARE NOT IN THE BUSINESS OF BUYING LOW AND SELLING HIGH: We are in the business of buying high and selling higher, or of selling low and buying lower. Strength usually begets strength; weakness, usually, begets more weakness.

5. IN BULL MARKETS ONE MUST TRY ONLY TO BE LONG OR NEUTRAL: The obvious corollary is that in bear markets one must try only to be short or neutral. There are few exceptions.

6. “MARKETS CAN REMAIN ILLOGICAL FAR LONGER THAN YOU OR I CAN REMAIN SOLVENT:” Lord Keynes said this decades ago and he was... and still is... right, for illogic does often reign, despite what the academics would have us believe about efficient markets!

7. BUY THAT WHICH SHOWS THE GREATEST STRENGTH; SELL THAT WHICH SHOWS THE GREATEST WEAKNESS: Metaphorically, the wettest paper sack breaks most easily and the strongest winds carry ships the farthest and the fastest.

8. THINK LIKE A FUNDAMENTALIST; TRADE LIKE A TECHNICIAN: Be bullish when the technicals and the fundamentals run in tandem. Be bearish when they do not.

9. TRADING RUNS IN CYCLES: In the “Good Times” even one’s errors are profitable; in the inevitable “Bad Times” even the most well researched trade shall go awry. This is the nature of trading; accept it. Move on.

10. KEEP ALL TRADING SYSTEMS SIMPLE: Complication breeds confusion; simplicity breeds profitability.

11. AN UNDERSTANDING OF MASS PSYCHOLOGY CAN BE MORE IMPORTANT THAN AN UNDERSTANDING OF ECONOMICS: Simply put, “When they’re cryin’ you should be buyin’ and when they’re yellin’ you should be sellin’!” But it’s difficult...very!

12. REMEMBER, THERE IS NEVER JUST ONE COCKROACH: The lesson of bad news is that more almost always follows... usually immediately and with an ever-worsening impact.

13. BE PATIENT WITH WINNING TRADES; BE EVEN MORE IMPATIENT WITH LOSERS: The older we get the more small losses we take... and willingly so.

14. DO MORE OF THAT WHICH IS WORKING AND LESS OF THAT WHICH IS NOT: This works well in life as well as trading. If there is a "secret" to trading... and to life... this is it!

15: CLEAN UP AFTER YOURSELF: Need we really say more? Errors only get worse.

16. SOMEONE ALWAYS HAS A BIGGER JUNK YARD DOG: No matter how much "work" we do on a trade, someone knows more and is more prepared than are we... and has more capital!

17: WHEN THE FACTS CHANGE, WE CHANGE! Lord Keynes... again... once said that "When the facts change, I change; What do you do, Sir?" When the technicals or the fundamentals of a position change, change your position, or at least reduced your exposure, perhaps exiting entirely.

18. ALL RULES ARE MEANT TO BE BROKEN: But they are to be broken only rarely and true genius comes with knowing when, where and why!

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P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

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