FNArena
FINANCIAL NEWS, ANALYSIS & DATA

Rudi's View: Gold, Conviction Calls & Early Results

Aug 13, 2020

Dear time-constraint investor: uncertainty remains, while gold will surprise the many fans, and conviction calls changes ahead of the August reporting season

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August 2020: Early Results

By Rudi Filapek-Vandyck, Editor FNArena

The local reporting season in Australia is slowly gathering pace. Let's remind ourselves how important financial results are for market sentiment and thus for how share prices will be treated for the weeks and months ahead.

Often, how companies are being judged is through the lense of: beat or disappointment? Black or white. Superb or poor.

That judgment is made not on the 30% profit growth, or the decision to pay out a dividend, or the heavy losses incurred during lockdowns or bushfires, but on how the financials compare to what analysts had penciled in their modeling.

The ruling narrative is companies which disappoint might see their share price underperform for up to four months, while those who manage to surprise positively are most likely rewarded with longer-lasting outperformance.

That's one side of the story.

The other side is that sustainable, structural growers can disappoint with their market update, and all of CSL ((CSL)), Cochlear ((COH)), REA Group ((REA)), TechnologyOne ((TNE)), and others have at varying times done exactly that, with direct consequences for the share price in the immediate aftermath.

But take a longer-term view, and what do we see? Every single one of those sell-offs today looks nothing but a temporary blip in an ongoing, long-term uptrend.

And that, I like to think, is the key message investors should keep in mind when volatility hits this reporting season.

The early stage of the August reporting season saw REA Group showing off its in-built resilience, while ResMed's result was better-than-expected but downgraded as "low quality" with cautious guidance by management not received well by flighty traders.

Clearly, day-to-day operations for healthcare bellwethers CSL, Cochlear and ResMed have been impacted by the virus and forced lockdowns, but the real question investors should be asking is whether this means these companies are running out of puff and soon will find themselves having turned ex-growth.

You know my opinion on this. All three, as well as REA Group, remain firmly embedded in my selection of All-Weather Stocks on the ASX.

Admittedly, a continuing strengthening of the Aussie dollar, as predicted by some, will complicate the outlook for foreign earners in Australia, but when it comes to forecasting FX, most experts' track record is not something to boast about.

Shorter term, market forecasts and expectations have seldom been as wide as for FY20, including for healthcare companies with most having withdrawn guidance, leaving analysts and investors to speculate what can and should be expected.

One positive stand-out to date is Ansell ((ANN)), not a typical healthcare stock, but Credit Suisse believes this is the early stage of a structural switch that will put the company's growth outlook on much firmer footing.

The most talked about remains, of course, Australia's number one biotech stock, CSL. It'll be interesting to see how much guidance management is prepared to share regarding the outlook for plasma and other parts of the business in FY21, and beyond.

CSL is too complex for most investors during less complicated times. This time around it's anyone's guess what will become the focus post reporting on August 19.

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Outside of the local healthcare sector, analysts are still busy assessing what might and can be revealed this month, but investors should appreciate uncertainty has seldom been at this year's level.

For sectors including airports, airlines, accommodation, travel and leisure, and Australian banks, August comes too early; many questions will remain unanswered. Analysts anticipate companies might defer to the AGM season in November when attempting to predict what comes next.

Iron ore producers are generating lots of cash, but how cautious will company boards be when deciding how much to pay out in dividends to shareholders?

Sectors like oil and gas producers will have horror updates to make, including the scrapping of dividends and capex/expenses, while writing down the value of assets – but investors are very well aware of it all.

Meanwhile, portfolio rotation (or at least: attempts to it), currency movements and other macro factors will continue to impact on general sentiment and share prices.

FNArena will be keeping track of post-financial results updates via Australia's one and only **Corporate Results Monitor** (including calendar):

https://www.fnarena.com/index.php/reporting_season/

See also:

-**Coming Soon: The August Reporting Season:**

-https://www.fnarena.com/index.php/2020/07/30/rudis-view-coming-soon-the-august-reporting-season/

-**August 2020: Nothing Like The Past:**

https://www.fnarena.com/index.php/2020/08/06/rudys-view-august-2020-nothing-like-the-past/

Equally important, for those who worry share markets are over-priced:

-Forecasts, Not Valuations:

https://www.fnarena.com/index.php/2020/07/23/forecasts-not-valuations/

Rudi Talks

Last week Livewire Markets (livewiremarkets.com) offered me the chance to share my insights and predictions for the Australian share market and the August reporting season via a face-to-face interview over Zoom.

I think the two stand-out features of the 30 minutes interview are my view that investors should carve up Australian equities into four separate baskets of stocks, and the fact I had made gold the largest single exposure in the FNArena/Vested Equities All-Weather Model Portfolio earlier in 2020.

Readers who have been paying attention to my writings in years past would be aware of my basket selections, but here's a reminder from the interview transcript:

Rudi's four baskets of Aussie stocks:

1. **High quality** stocks that are immune or not affected by the changes taking place in the world. Example: CSL Limited
2. **Stocks benefitting from change**. Example: Afterpay
3. **Solid, sustainable dividend paying stocks**. Example: Waypoint, previously known as Viva REIT
4. **Laggards**. These are the stocks need to transform and change to survive in this environment.

The idea is to treat each basket in a different way. The All-Weather Portfolio invests in the first three baskets and avoids the fourth.

My position on gold:

"I think that the major decision you have to make is do your buy gold, pure gold, or do you buy gold producers? With the gold producers, you are taking on a different type of risk. I'm just after simple, straightforward and uncomplicated ."

The interview in full (video and written transcript) can be accessed here (sign up is required):

https://www.livewiremarkets.com/wires/rudi-s-pandemic-proof-portfolio

Realising the current All-Weather Performers section should do a lot better when it comes to sustainable dividend payers (essentially the focus of the Portfolio) I shall add an update on the theme before the end of this week.

Paying subscribers (6 and 12 months) have unrestricted access to our dedicated section on the website to All-Weather Performers:

https://www.fnarena.com/index.php/analysis-data/all-weather-stocks/

Gold, The Enigma

Adding more gold exposure to the All-Weather Portfolio earlier in the year has certainly proven a prescient move, but it's always good to remind investors bullion has many pros and cons, drivers and headwinds, which makes it a little bit of an enigma for most investors.

While many a gold bull, and there are many around these days, is gloating after this year's rally, with references being made to how gold equals a nice bottle of red, getting better with older age, I am certainly not singing from the same song sheet.

The 1990s and post-2011 (until last year) should warn investors the sun does not shine in perpetuity in the land of gold and silver, and both idolised protectors against inflation are often very bad safeguards against value erosion.

Gold, above anything else, is often what the majority wants it to be. And that can change within a heartbeat.

The main dilemma for investors using gold as a protection against inflation will arrive if/when inflation does pop up with a vengeance and global bond yields make a decisive switch to incorporate this change.

I have little doubt this adjustment in bond yields will crush the price of gold and silver, at least in the initial knee-jerk response.

Recent history shows us plenty of signals to back up that statement. Witness, for example, how gold quickly pulled back from US$1364/oz to US$1131/oz in late 2016 and again in 2018 when bullion pulled back from US$1349/oz to US$1187/oz.

Despite the ruling mantra that inflation is gold's best friend the harsh reality is that bond yields are the number one force that sets the direction for gold and this year's rally is being supported by ever lower bond yields, which has pushed the inflation corrected, real yield on ten-year US treasuries to -1%.

This is why gold is now trading near an all-time high. All the other factors play second and third fiddle.

Conviction Calls

Morningstar's list of **Best Ideas** for investors in Australia and New Zealand has lost Bapcor ((BAP)), following an 8% rally in June and July with the added observation that FNArena's consensus target remains more than 11% above the share price on Monday.

In place of Bapcor, Morningstar's stock pickers have added waste manager Bingo Industries ((BIN)) whose share price continues to linger around price levels of April-May.

The list equally saw the removal of Spark Infrastructure ((SKI)) as Morningstar's fair value calculation does not reach higher than $2.40, not that far off from the share price this week.

This leaves twelve stocks on the Best Ideas list, and most have clearly been selected because of a cheap share price: AdBri ((ABC)), Avita Therapeutics ((AVH)), Cimic Group ((CIM)), Computershare ((CPU)), G8 Education ((GEM)), Link Administration ((LNK)), Southern Cross Media Group ((SXL)), Telstra ((TLS)), Viva Energy Group ((VEA)), Westpac ((WBC)), Whitehaven Coal ((WHC)), and Woodside Petroleum ((WPL)).

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Wilsons' Australian Equity Focus List has added Appen ((APX)) and removed JB Hi-Fi ((JBH)), increasing the lists' overweight to the technology sector to 9.5% weight, some 4% more than the benchmark.

Appen has equally been added to Wilsons list of **Conviction Calls** with health and dairy products company Nuchev ((NUC)) temporarily dropping off because Wilsons is currently acting as a corporate advisor.

Having kept their presence as a Conviction Buy are ARB Corp ((ARB)), Collins Foods ((CKF)), Integral Diagnostics ((IDX)), Telix Pharmaceuticals ((TLX)), ResMed ((RMD)), and Whispir ((WSP)).

Following ResMed's Q4 market update, which triggered a notable retreat in the share price, Wilsons has stuck with its Overweight rating and a slightly lower $28.55 price target, suggesting the balance remains in favour of strong ventilator sales for the next three quarters.

While SaaS installations have been hit by the pandemic, Wilsons remains convinced it is but a short-term, temporary blip in an ongoing firm looking growth outlook.

(This story was written on Monday 10th August, 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

Paid subscribers to FNArena (6 and 12 mnths) receive several bonus publications, at no extra cost, including:

– The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?)
– Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate)
– Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection)
– Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow.
– Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

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