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Current bear market a unique beast

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IT'S clear to *Briefcase* that forced selling or liquidation of selected shares from margin loan accounts in recent weeks has had an ongoing negative impact on those specific stocks, and the market in general. Such forced selling offers huge trading and long-term investment opportunities for courageous investors willing to buy from distressed sellers.

Recently we witnessed runs on AED, Suncorp, UXC, Mirvac, RCR Tomlinson and possibly Roc Oil, as well as the Allco and MFS slumps, to name a few. While other influences were clearly at play in these cases, *Briefcase* suspects that unwinding of margin accounts has played a big part in many recent share price falls.

The current bear market is unlike any others we have seen, because this cycle has a high level of gearing into stocks, which was not a big feature of previous booms and busts. Gearing was widely used during the last five years of bull market action and not only by the 'Joe-Blows' with a $100,000 portfolio. This time, seriously wealthy individuals, or as it turns out, those who thought that they were seriously wealthy, have gone in boots and all, and many are now feeling the financial strain.

In the past, when stocks fell by 30 per cent, investors' portfolio values fell by roughly 30 per cent. However today, after the effect of gearing, many investors' portfolios have been completely wiped out and some are still left owing money to the bank, even after saying goodbye to their whole portfolio. This leaves little choice but for those individuals to sell other assets to pay their debts.

On my normal walk around the well-to-do Perth suburb of Cottesloe last weekend, Briefcase noticed a number of newly erected 'For Sale' signs had sprung up. I suspect if readers perform the same perambulation around their own neighbourhoods, a similar pattern may emerge.

Australia's residential and small industrial property markets are about to be tipped on their heads as investors make a grab for cash to reduce their debt and holding costs. The site of bulging property sections in the daily's and weekly community papers backs up this assessment.

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People are being forced to sell any asset they can get their hands on, either because the banks want payment, or because higher holding costs, in the form of rising interest payments, render the assets uneconomic to hold.

So the old story about property doing well following a stock market fall is not going to eventuate this time. This bear market is having a wider impact on people's total wealth, so there may actually be a flow on to a weaker property market.

This theme harks back to earlier observations that Australia's housing shortfall will easily be solved when people are forced to sell some of the 855,000 unoccupied dwellings. So, out goes the flat in town, out goes the holiday house and out goes the house we bought for the kids while they are at university, along with the block we were looking to build on this year.

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To borrow and mutate a line from Elvis Costello, *Briefcase* is 'watching the directors' for evidence of bargains in the market.

Director buying and selling can be a good indicator of corporate health. Recent sales by a raft of Roc Oil directors certainly pointed the way forward, or in that case, downward. However, directors have recently been buying shares in Venture Minerals, Global Health (formerly Working Systems Solutions) and Havilah Resources, which may point to a brighter future.

Venture Minerals continues to drill away at its Mt Lindsay magnetite/tin project in Tassie with positive metallurgical results adding to good iron assays, lending a positive feel for that speculative iron ore junior. The company is cashing up to support a serious feasibility study on the project. See recent drill results by Venture Minerals' in the table above.

Remember, this is magnetite ore, which will require processing to produce a high value iron concentrate along with a bonus tin concentrate.

Global Health has reported an improving cash flow trend and appears to be on the verge of becoming cash-flow positive, as well as reporting strong sales of some of its e-Health products. *Briefcase* suspects that Global Health is cheap. Havilah Resources appears to be trading at bargain levels, given its strong asset base in gold, copper and cobalt.

On the other hand, despite the confidence shown by directors, Antares looks like a train wreck.

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During the past four years, a surge of investment in Australia's resources industry has distorted the whole economy, lifting the price for labour and equipment in that sector, which has flowed on to the rest of the economy with


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"We'll put a team of local experts on your business"

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inflationary consequences.

This condition is called the 'Dutch disease', after a similar fate which befell Holland in the 1980s after a surge of investment to develop its natural gas resources had a devastating effect on the rest of its economy.

Investment in Australia has been largely focused on brownfield expansions of iron ore production, natural gas and LNG facilities, coal and associated infrastructure, as well as new nickel mines.

To date, sovereign funds have played only a small part in all this activity. Sally Malay Mining received debt and equity support from a Chinese nickel smelter along with an off-take agreement for concentrate, after the agreement of its masters in Beijing, while Compass Resources has also worked with a Chinese partner to develop its much-delayed copper cobalt oxide project.

More recently, iron ore development companies have been courting sovereign money for feasibility work and Chinese funds have been active in seeking to establish infrastructure in the state's Mid West.

Money controlled by sovereign funds is somewhat different to funds controlled by large mutual or pension funds. In the Middle East and China, major businesses such as oil production, mining and metals processing, are owned and controlled by a usually authoritarian state.

Commercial surpluses (profits) arising from these operations, effectively become state funds, almost indistinguishable from fiscal surpluses or more likely, fiscal deficits.

Governments in control of sovereign money may find motivation for investment outside of the normal commercial considerations, which would ordinarily drive investment dollars. Sovereign funds may be motivated by political and resource security issues above pure commercial returns.

There is no doubt that Australia's junior miners need access to vast amounts of investment dollars and also require a secure market for their product, so working with partners in China or the Middle East makes good commercial sense.

Recently the Australian government has said that it wants to vet the inflow of investment by sovereign funds to ensure the local purse is not being disadvantaged by any deals that may be done. Clearly, with a background of the potential for less than commercial arrangements by sovereign funds, the Australian government is concerned that some deals on offer may not be in the best interests of the Australian taxpayer.

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Briefcase sees another angle. Australia's Reserve Bank has set a goal of reducing Australia's economic growth from around 4.5 per cent a year to closer to 2.75 per cent, so as to reduce inflationary pressures. However, the only tool it has is the very blunt instrument of raising interest rates.

Governments, on the other hand, have access to many other tools to slow the economy down, including jaw-boning the market to restrict the flow of foreign funds into the economy.

During the past four years, the federal government has been throwing fuel on the fire by instigating personal tax cuts; and there is more to come. Perhaps the new federal treasurer has had a coffee with the Reserve Bank governor and, in the absence of any move to withhold tax cuts, has decided to bring political pressures to the fore in an effort to slow things down. There is no doubt that the upcoming May federal budget will include further fiscal tightening to cool the economy.

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VENTURE MINERALS – DRILL RESULTS

HOLE ID	FROM	TO	INTERVAL	IRON GRADE
ML 65	84m	128m	44m	22.7%
including	106m	118m	12m	37%
ML66		Did not reach target due to fault off-set		
ML68	90m	136m	46m	43.4%
ML69	35m	37m	2m	41.3%
and	45m	63m	18m	35.2%
ML70	101m	145m	44m	38.1%
including	105m	117m	12m	48.6%
and	173m	177m	4m	31.7%