



Ducking for cover

Share market slumps and credit shortages are giving many investors sleepless nights. *YourMoney* asked analyst **Simon Guzowski** to come up with the ultimate defensive stocks — the “duck for cover” portfolio.

WHEN you've got to duck for cover and want a portfolio that holds its ground or possibly even makes gains when times get tough, you need to own shares in businesses that are recession and crisis proof.

As creatures of habit there are some things we tend to keep on doing no matter how tough times are.

It is the businesses that support these age old habits that will fare well in a downturn.

No matter what happens we all need to eat, drink, see a doctor, and go to the bank.

Some bad habits can also kick in during the tough times which puts gaming, or should we say gambling, stocks in a position to grow.

Gold is also an area every defensive investor needs to look at.

From the dawn of recorded history mankind has mined, crafted, worshipped, plundered, fought over and traded gold.

The link between man and gold has been incredibly enduring to say the very least and even today, gold is the epitome of capital preservation. Cash may be king, but the king of cash is gold.





GENERAL POINTS

The first thing to remember when the market trades south is that it is still possible to make money in the share market.

Sure, you might watch the news and see market indices trading south, however, these are just market averages.

All they are saying is that, on average, stocks are moving down. If you look at the detail you'll soon discover that even on some of the market's toughest days some stocks can buck the trend and actually rise.

It might sound bleeding obvious, however, this important point is often overlooked in all the excitement of a jittery market.

You must hold as many of these rising stocks as possible, because these are the ones that will make you money while the herd runs for the hills or vainly hopes their stocks will make a comeback.

TOUGHING IT OUT

Always remember that even in the toughest of conditions there will be a businesses out there which can prosper, take advantage of a unique situation or even grow.

The difference between the good times and the bad times is that there will be fewer of these businesses to invest in when a market turns bearish.

In short, you need to be selective and only hold positions that can make gains.

TOP TIPS

The majority of your defensive positions will be in tried and tested sectors that we all know will fare well in the tough times.

These sectors include supermarkets, breweries, funerals, health care, banking, gambling and gold.

If you hold something in all of these you'll have a tough portfolio that can survive just about anything. In fact you'll more than likely make a profit as investors flock to the handful of defensive companies that you already own.

Companies in these sectors consistently buck the trend to often make gains when the rest of the market falls.

In uncertain times you will often see people switch to low cost providers of products.

If people are tightening their belts and notice that The Reject Shop or JB Hi-Fi for example has cheaper prices, they will make the switch, so

you can expect sales in these stores to grow while other retailers suffer.

Keep an eye out for some of these when you are investing defensively.

There is another way low cost providers can benefit in a downturn. A low cost provider might still face a reduction in earnings and see its share price fall, however, if it can stay profitable while its competitors go bust you should back it.

This type of business can watch its competitors wither away, or possibly

buy them out at bargain prices.

More importantly, as competitors go out of business it will gain more and more market share.

When conditions improve, its earnings will be ready for a dramatic rebound and your patience should be rewarded.

Other must-have characteristics in a defensive stock include:

- As little debt as possible.
- Consistent steady earnings.
- Strong positive cash flows.
- Earnings certainty.

PREFERRED PICKS

Consumer non-discretionary

We all need to eat, right?

MTS: Metcash. In a country famous for pulling down tall poppies Metcash is an obvious choice in supermarkets. It is the third largest distributor of groceries that operates under the IGA supermarkets brand. Most importantly it is gradually taking market share from its larger competitors Woolworths and Coles.

WOW: Woolworths is a great business with its consistent track record of growing earnings and exceeding expectations year after year after year.

Funerals are here to stay

IVC: Invocare owns and operates funeral homes. It is a market leader in a sector that is growing on the back of our ageing population. It has also recently made a move into the Singapore market which is already performing well.

Breweries

In the good times we drink to celebrate, and in the bad times we drink to drown our sorrows. The consistency of earnings from the large breweries can't be ignored.

LNN: Lion Nathan is our preferred pick in this sector. The cosy duopoly between Fosters and Lion Nathan keeps earnings predictable and relatively safe. Lion Nathan is using an active marketing campaign to gradually take market share away from its competitors.

Health

A lot of lifestyle choices will get the cut before most of us stop getting essential medical care.

SRX: Sirtex Medical has commercialised a liver cancer treatment called SIR-Spheres which can deliver better results than many alternative treatments with less side effects. We are expecting them to continue growing market share at a rapid rate.

SHL: Sonic Healthcare. Sonic is already a market leader in the Aus-

tralian pathology market. Not content to rest on its laurels it is now expanding into the US and European markets. Both of these are highly

fragmented which will make it easier for a market consolidator like Sonic to grow.

Gaming

Can help us forget about those falls in the market.

TTS: Tattersals is the company behind Powerball and Tattslotto. While gaming, or should I say gambling, isn't for everyone, as an investor it is hard to ignore the tendency for people to gamble more when times are tough. Making this sector a great one to hold during an economic slowdown.

PBL: The focus of Publishing and Broadcasting has increasingly shifted to casinos. While there have been some early teething problems, in the long-term this should prove to be a consistent, profitable business with plenty of growth ahead of it.

Banking

Our banks are safe and can perform well in the long run.

ANZ: ANZ Bank is one of the world's lowest cost banking groups, and in terms of value in its share price is a standout in our banking sector.

The recent turmoil in credit markets could prove to be good news for the large banks as investors, borrowers and depositors opt for the safety of a big four bank. Australian Banks are much more heavily regulated than banks in the US or Britain, so they have become very strong businesses that are very unlikely to go under.

Gold

Every defensive investor needs a position in gold.

NCM: Newcrest Mining has just unwound its hedge book which makes it much more attractive for investors looking for exposure to the gold price. Newcrest boasts a respected management team, very low production costs, exploration upside and the potential for production to rise. There is an age old habit for investors to flock to gold whenever uncertainty is on the rise which makes this a great defensive play.

PORTFOLIO STRUCTURE

Weightings are geared towards groceries, banking, gold and healthcare. These sectors are not only trading at more reasonable valuations, they are also very stable businesses that generate lots of cash.

Funerals are also here to stay, as is gambling and drinking so these sectors really need to be in a defensive portfolio as well, although I would



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give them a lower percentage because they are slightly less defensive.

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