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Address for communications :

The Editor, JASSA
13-15 O'Connell Street,
SYDNEY, N.S.W., 2000.

Secretary,
Mrs. J. A. Crivelli
Telephone: 232- 5144

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ARMIDALE 1974
by John Rawlins

The annual Residential School of Security Analysis held at the University of New England, Armidale is now a regular feature of the security analysts' year and was held again this year in mid-February. The objectives and features of the course were largely similar to those of previous years and have already been described in JASSA. Such changes as occurred were more those of detail than principle, for example, the portfolio management game went on throughout the week and came close to dominating the course, so great was the competitive spirit engendered.

Despite enticing lecture titles such as Dividend Policies, Mergers and Takeovers, Industry Analysis, Fundamental Analysis, Portfolio Management, Economic Geology and Organizational Behaviour, leaving the participants imagining that there was little chance of them emerging as anything other than the "complete" security analyst, the tone of the course and the lecturers' aims were made abundantly clear from the first session. "It is a why, not a how course", said Ron Peterson in his introductory briefing. The security analyst is

emerging from the age of the stock picker and is approaching the stage of his professional evolution when he must take a more disciplined approach developed along academic lines and using scientific method in defining the problems that face him, testing his hypotheses and drawing his conclusions. If he does this, the analyst will be able to make a "greater number of good decisions", Peterson concluded in his summary.

Basking in the reflected glory of the "good decisions" that they were shortly to make, the 24 participants in the course were promptly thrown in the deep end with a full day's lectures on the theory of the finance of the firm. Formula followed formula, one theory developed against another, with the analyst left to choose whichever he felt the most credible. From the exposition of the history of the theory of the finance of the firm through to current thinking and a tentative introduction to that pair (whose names once heard are surely never forgotten) Modigliani and Miller, little indication was given as to either the lecturer's own preference or indeed academic thinking on the usefulness and practical application of the themes expounded. This left most participants groping at the end of the first day and fearing what was in store for them for the rest of the week. They need not have worried.

Peterson is a passionate believer in the philosophies he was expounding with considerable vigour and equally enthusiastically set about debunking the counter arguments that may have been put forward by those who earned their living from the daily grind of security analysis. Peterson stimulated and provoked and thus made interesting lectures, which in different hands, could easily have become dismal failures.

The remaining days were not so intensive, became more leisurely and were less bound up with the intangible concepts. Nevertheless, at no time were practical answers or "best" methods given. Numerous alternatives were put up and the analyst left to pick his way among them. Even Professor Harrington's highly stimulating lectures on economic geology were philosophical rather than physical and left one little better equipped to deal with the future earnings of a Mount Isa or a Bougainville.

If this summary of the course may have dwelt for too long upon the impact of the theoretical aspects, it is because that is really what the school was all about. The success and the benefit of the course lies not so much in the re-awakening of long forgotten mathematics but the awareness of techniques now being worked out in universities which may well, sooner than one thinks, be sufficiently refined to bear practical application. The "why" part of the Residential School may well indeed be opening the way for tomorrow's successful security analyst.

