2009 index

This is the full index of the articles that have appeared in JASSA in 2009. Entries are grouped under general subject headings and each contains the title, author, the issue (Issue 1, Issue 2, Issue 3 and Issue 4) in which the article appeared and a brief summary of the content. Some entries in the index appear more than once, where the content is appropriate to more than one category. Following the subject index is an author index listing the names of authors, the titles of their articles and the issues in which they appear.

ACCOUNTING

Fair value accounting, credit ratings and cyclicality: implications for the stability of financial institutions, by Lakshman Alles F Fin, Issue 3, pp. 7–10.

Key factors identified as contributing to the global financial crisis include the roles of financial accounting policies and credit rating agencies, and the combination of these factors in producing a continuing pro-cyclical destabilising effect on financial institutions. These issues are examined here in order to determine the lessons for Australian financial institutions.

AGEING POPULATION

Older people's assets: using housing equity to pay for health and aged care, by Benedict Davies F Fin, Issue 4, pp. 43–47.

The research agenda on the ageing population should be broadened to include consideration of how people will pay for their health and aged care later in life. With aged care costs difficult to estimate in advance, it is not easy for people to plan ahead. Hopefully, further financial innovation, including alternatives to reverse mortgages, will occur to help people address these issues.

ASSET PRICING

Predicting Australian stock market annual returns, by Graham Bornholt, Issue 1, pp. 9–13.

In view of the current volatility in global equity markets, the outlook for Australian equities returns is a significant issue for funds managers and investors. There is strong evidence that returns in the Australian market are predictable from past US returns (two years earlier). In addition, Australian growth stocks are shown to be more influenced by the 'two-year' effect than are value stocks.

BANKING

Technological banking services and operating costs, by Tom Cronje, Issue 2, pp. 34–39.

The provision of technological banking services to customers has been viewed as a crucial means of reducing banks' operating costs in terms of traditional branches and staffing. However, the findings of this paper contradict the expectation that technological banking progress will improve the ratio of staff costs to overhead expenses for all Authorised Deposit-taking Institutions (ADIs).

CAPITAL MARKETS

Quantile regression: its application in investment analysis, by David E. Allen F Fin, Paul Gerrans, Abhay Kumar Singh and Robert Powell, Issue 4, pp. 7–12.

Quantile regression is a very powerful tool for financial research and risk modelling, and we believe that it has further applications that can provide significant insights in empirical work in finance. This paper demonstrates its use on a sample of Australian stocks and shows that while ordinary least squares regression is not effective in capturing the extreme values or the adverse losses evident in return distributions, these are captured by quantile regressions.

CLIMATE CHANGE

Investing in Australia during climate change, by Richard Cumpston and Richard Denniss, Issue 1, pp. 25–30.

Treasury's October 2008 report on the economics of climate change mitigation was followed in December by the Government's White Paper on its carbon pollution reduction scheme. What guidance do these comprehensive reports, and other emerging data, provide to investors in climate-affected industries such as agriculture and tourism, which are now facing large long-term risks? It includes a summary of the December 2008 White Paper on Australia's proposed Carbon Pollution Reduction Scheme.

CONSUMER DEBT

Changing tides – consumer finance and the generational wealth divide, by Deidre Grover SA Fin and Rachael Norcott A Fin, Issue 3, pp. 49–50.

This Finsia research report highlights a number of important concerns about the level of household debt in Australia, as well as savings levels, mortgage and credit card stress, and retirement savings strategies.

COSTS, INCOMES, FEES

Technological banking services and operating costs, by Tom Cronje, Issue 2, pp. 34–39.

The provision of technological banking services to customers has been viewed as a crucial means of reducing banks' operating costs in terms of traditional branches and staffing. However, the findings of this paper contradict the expectation that technological banking progress will improve the ratio of staff costs to overhead expenses for all Authorised Deposit-taking Institutions (ADIs).

DEBT REPAYMENTS

Facing up to dysfunctional finance products, by Geoff Gloster, Issue 2, pp. 16–19.

Financial markets are facing a deeper and more fundamental problem than the current issues surrounding the regulation of prudential standards. This is that savings and loan products are so flawed in their ability to address user needs as to render them 'dysfunctional'. The current and previous financial crises are at least partly due to this dysfunction and, unless addressed, this will also be a factor in future crises, regardless of the regulatory reforms that are introduced.

DEFAMATION RISK

Defamation risk in the banking industry, by Tim Griffiths, Issue 2, pp. 20–24.

Based on recent groundbreaking decisions, this paper examines the legal means by which banks and financiers can protect their own reputation and manage defamation risk. It also highlights the defamation risk to financial institutions as credit providers and drawees of cheques and financial instruments, including the risk of providing information about creditworthiness. It includes one boxed paragraph on reducing defamation risk.

DISCLOSURE

All aboard the PDS Titanic, by M Scott Donald SF Fin, Issue 2, pp. 29–33.

This paper questions the current heavy reliance on disclosure as a regulatory instrument within the context of compulsory superannuation, particularly in relation to product disclosure statements (PDSs). It highlights a number of reasons why such disclosures are problematic, and questions the logic of disclosure in a system where participation is compulsory. It also suggests a need for reforms that rebalance the emphasis in the regulatory scheme shaping superannuation away from disclosure and in favour of other regulatory instruments and strategies.

EMISSIONS TRADING

Investing in Australia during climate change, by Richard Cumpston and Richard Denniss, Issue 1, pp. 25–30.

Treasury's October 2008 report on the economics of climate change mitigation was followed in December by the Government's White Paper on its carbon pollution reduction scheme. What guidance do these comprehensive reports, and other emerging data, provide to investors in climate-affected industries such as agriculture and tourism, which are now facing large long-term risks? It includes a summary of the December 2008 White Paper on Australia's proposed Carbon Pollution Reduction Scheme.

ENERGY

Costs and challenges of energy transition, by Andrew McKillop, Issue 2, pp. 25–28.

In estimating the costs involved in global energy transition, difficulties are encountered in integrating a myriad of decisions to be made at all levels, from final users though to government, concerning energy saving versus energy supply substitution by renewable and low carbon energy. However, under any hypothesis, large energy savings or demand-side management will be necessary to mitigate the effects of climate change. This paper indicates that a minimum of US$750 billion to US$1000 billion per year of investment and spending will need to be mobilised to enable global energy transition away from fossil fuels.

index '09

EQUITY FINANCING

Observations on residential housing: the shared equity loan, R.R. Officer SF Fin, Issue 1, pp. 31–34.

Most households rely on traditional interest-bearing debt which can expose them to significant risks, such as sudden changes in economic growth or interest rates. Such risks could be alleviated through a better mix of external debt and equity for households via shared equity loans. Shared equity loans also appear to be a good investment for the investment house sharing the equity. On the basis of limited data, they return significant abnormal returns or 'alpha' for their risk.

Older people's assets: using housing equity to pay for health and aged care, by Benedict Davies F Fin, Issue 4, pp. 43–47.

The research agenda on the ageing population should be broadened to include consideration of how people will pay for their health and aged care later in life. With aged care costs difficult to estimate in advance, it is not easy for people to plan ahead. Hopefully, further financial innovation, including alternatives to reverse mortgages, will occur to help people address these issues.

EQUITY MARKETS

Predicting Australian stock market annual returns, by Graham Bornholt, Issue 1, pp. 9–13.

In view of the current volatility in global equity markets, the outlook for Australian equities returns is a significant issue for funds managers and investors. There is strong evidence that returns in the Australian market are predictable from past US returns (two years earlier). In addition, Australian growth stocks are shown to be more influenced by the 'two-year' effect than are value stocks.

FINANCIAL ANALYSIS

ABC Learning Centres Limited – did the annual reports give enough warning? by Andrew McRobert SF Fin, Issue 1, pp. 14–17.

Following the demise of ABC Learning Centres, lenders and investors have faced the question of whether its financial statements provided sufficient warning signals. Careful reading of the accounts indicates that, despite disclosure of ABC's relentless growth, there was no material strengthening of its financial position. More detailed analysis reveals ABC's increased gearing, the decline in shareholder returns and its capacity to service the group's debts, with the inevitable and predictable outcome.

Some thoughts on leverage, by Andrew McRobert SF Fin, Issue 3, pp. 15–23.

Analysts can be misled by measured levels of gearing based on accounting standards, as opposed to actual gearing levels that require appropriate adjustments to disclosed liabilities. This paper re-examines the concept of leverage and identifies key areas where a new approach to assessing leverage is required, very different from that of 20th Century financial analysis.

FINANCIAL CRISES

An historical perspective on the current crisis, by Bart Frijns and Alireza Tourani-Rad F Fin, Issue 2, pp. 7–9.

To assess the severity of the current financial crisis in Australia, we examine stock market index data from five previous crises since 1882. We find that although the current crisis has not yet ended, it is very similar to other previous crises, both in terms of magnitude and high-to-low duration. We also note that index levels alone can be misleading, giving the impression that the current crisis is much worse than it is.

Fair value accounting, credit ratings and cyclicality: implications for the stability of financial institutions, by Lakshman Alles F Fin, Issue 3, pp. 7–10.

Key factors identified as contributing to the global financial crisis include the roles of financial accounting policies and credit rating agencies, and the combination of these factors in producing a continuing pro-cyclical destabilising effect on financial institutions. These issues are examined here in order to determine the lessons for Australian financial institutions.

FINANCIAL LITERACY

Financial hardship and financial literacy: a case study from the Gippsland Region, by Judy Tennant, Jill Wright and Janet Jackson, Issue 2, pp. 10–15.

Our research indicates that while inadequate financial literacy is a contributing factor to financial hardship, other factors such as inadequate income are important. We find no significant relationship between 'sex' and 'financial literacy'. Our study also indicates that financial counsellors play an essential role in the provision of appropriately targeted financial advice and education.

FINANCIAL PLANNING

Assessing professionalism: the case of financial planning, by Ted Watts F Fin and Brian Murphy F Fin, Issue 2, pp. 40–44.

Based on a relatively small survey of 78 financial planners and their attitudes to professionalism, our research indicates that financial planning, as practised today in Australia, remains an industry rather than a profession. Using a set of attributes of professionalism derived from the literature, the results from the attitude statements provided by the respondents failed to achieve a satisfactory level of professionalism for any of these attributes.

Effect of general economic mood on investor risk tolerance – implications for financial planning, by Lujer Santacruz, Issue 1, pp. 35–42.

This study indicates that the risk tolerance of Australian investors is not affected by general economic mood and, therefore, it is not necessary to adjust risk tolerance scores to account for changes in the investment climate. However, financial planners should recognise that herding behaviour could still result from investors being influenced by recent events.

FINANCIAL REPORTING

ABC Learning Centres Limited – did the annual reports give enough warning? by Andrew McRobert SF Fin, Issue 1, pp. 14–17.

Following the demise of ABC Learning Centres, lenders and investors have faced the question of whether its financial statements provided sufficient warning signals. Careful reading of the accounts indicates that, despite disclosure of ABC's relentless growth, there was no material strengthening of its financial position. More detailed analysis reveals ABC's increased gearing, the decline in shareholder returns and its capacity to service the group's debts, with the inevitable and predictable outcome.

FINSIA NEWS AND VIEWS – EDITORIAL

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 1, pp. 4–5.

With investment markets, both in Australia and globally, continuing to be dominated by the effects of the global financial crisis, these are difficult times for funds managers, financial planners, investors and policy makers. In keeping with this, the first issue of JASSA for 2009 includes articles focusing on important issues such as investors' risk tolerance and their ability to assess risk accurately, the transparency of financial accounts, the need for reform in certain financial management practices, and the predictability of the Australian equity markets.

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 2, 4–5.

The world's financial markets and economies continue to feel the aftershocks of the events of the second half of 2008. Some of the effects are tectonic and will take years and perhaps decades to run their course. Others are more readily apparent but may prove to be ephemeral. The challenge for policy makers, regulators and all involved in the delivery of financial services is to ensure that the steps taken today address the underlying problems and not simply the latest mini-crisis or scandal. This second issue of JASSA for 2009 therefore addresses a wide range of issues facing the financial services sector in Australia today.

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 3, pp. 4–5.

As this issue of JASSA goes to press, the dust is starting to settle from the global financial crisis. Most major share markets are up, for the year to date, though none by as much as the Australian market. Some semblance of normality has also returned to credit spreads and, although central bankers remain cautious about the possibility of a second wave of financial distress, the overall prognosis is starting to appear more positive. With some of the lessons from the crisis also becoming clearer, the papers in this issue of JASSA make an important contribution to the current review process. The topics covered in this issue span banking, insurance, insolvency, superannuation and investment management, each highlighting key factors, risks and opportunities that we would be well advised to assimilate.

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 4, pp. 4–5.

With the ex-post analysis of the financial crisis now well underway, it is perhaps not surprising that a number of articles in this final issue of JASSA for 2009 focus on the importance of empirical work in finance, particularly in relation to asset valuation and risk analysis. These are important issues, currently under review by regulatory authorities around the world for their role in exacerbating the crisis. Other articles examine topical issues such as the development of appropriate strategies in value-based fundamental investment, mining project evaluation and the funding of health care for the aged.

FINSIA NEWS AND VIEWS – JASSA PRIZE

Announcing the 2008 JASSA Awards, Issue 1, pp. 6–7.

Since 1987, Finsia has presented an annual award for best original article and a runner-up merit award for outstanding original writing in JASSA. The criteria for the awards are topicality, originality, practicality and readability. Overall contribution to the industry's literature is also considered.

index ’09

FINSIA NEWS AND VIEWS – BOOK REVIEWS

Opportunities beyond carbon, edited by John O’Brien. Melbourne: Melbourne University Press, 2009. Book review by Phil Preston F Fin, Seacliff Consulting Pty Ltd, Issue 3, pp. 44–45.

The book is a collection of essays from a range of authors with different expertise and perspectives on climate change. As O’Brien notes, it is ‘an unashamedly optimistic book’ that aims to enlighten readers with a cross section of views that give cause for reasonable hope rather than playing to the stereotypical pending-horror style of climate change portrayals.

The ascent of money: a financial history of the world, by Niall Ferguson. New York: Penguin, 2008. Book review by Frank Olsson F Fin, Finsia New Zealand, Issue 1, pp. 54–55.

The book’s key messages are that all bubbles burst and financial markets don’t lend themselves to reliable analysis and forecasting. With tens of millions of investors driven by fear and greed, and billions of consumers influenced by current trends and expectations, scientific calculations cannot say much about the future.

The crash of 2008 and what it means: the new paradigm for financial markets, by George Soros. New York: Public Affairs, 2009. Book review by Allan Barton, Emeritus Professor, College of Business & Economics, Australian National University, Canberra ACT, Issue 3, pp. 46–48.

In his latest book, the famously successful hedge fund operator, George Soros, explains and analyses the catastrophic crash of world financial markets. This is the tenth book he has written on financial market operations. Academic, professional and government policy makers will find the study of great benefit and interest.

The subprime solution: how today’s global financial crisis happened, and what to do about it? by Robert J. Shiller. Princeton: Princeton University Press, 2008. Book review by Russell Thomas F Fin, Finsia, Issue 1, pp. 56–57.

With his trademark polish and accessibility, Shiller dissects the collapse of the US mortgage and housing markets, explains the impact on the wider credit markets and proposes a series of bold solutions for policy makers. Departing markedly from orthodox thinking on regulatory reform, he calls for market-based solutions to minimise the impact of housing bubbles, and for industry leaders and policy makers to promote the conditions for a more vigorous real estate and financial environment in the future.

Investment legends: the wisdom that leads to wealth, by Barry Dunstan. Richmond Vic.: John Wiley and Sons, 2008. Book review by Scott Donald SF Fin Chair, JASSA Editorial Board, Issue 4, pp. 48–49.

The book provides a very readable account of 15 of the most successful investors of the past two decades. It highlights that achieving legend status is not about overnight success, or one big win. It is about perseverance, in some cases even survival. Most importantly, what sets these legends apart is their commitment to learning.

FINSIA NEWS AND VIEWS – WEBMASTER

Webmaster recommends: Recent financial market research, Issue 1, pp. 58–60.

Covers the Finsia/AICD Underlying profit publication, research by EDHEC in France and EFFAS in Switzerland, and the enhanced monetary policy coverage of the Federal Research Board website, as well as microfinance, workplace flexibility, statistics and obsolete skills.

Webmaster recommends: Update on international climate change, energy research and productivity, Issue 2, pp. 45–47.

Over the past few months, the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA) have released a range of reports on climate change and energy. They follow studies carried out over 2008 by McKinsey & Company, which focused on the European Commission’s role in promoting higher energy productivity around the world.

Webmaster recommends: Asset allocation, ICT, microcredit – the many faces of finance, Issue 3, pp. 51–52.

Covers recent EDHEC research, Telstra’s White paper on ICT as service improvement driver (July 2009), digital marketing, responsible lending, micro-finance, sources on the origins of the global financial crisis.

Webmaster recommends: Focus on financial markets, ESG, social lending and sustainable investment practices, Issue 4, pp. 6–63.

Covers international banking stability research, measurement of economic performance and progress, social auditing, critique of IAS19, gender issue, ESG disclosure, social lending, responsible investment, social investments and peak oil monitoring.

FIXED ASSET VALUATION

The valuation of in-situ plant and machinery, by Wayne Lonergan SF Fin, Issue 4, pp. 31–35.

The use of conventional cost-based valuation techniques can significantly understate in-situ plant and machinery values in fixed asset intensive businesses, especially in mining related assets. There are also important potential flow-on consequences to other valuations where a top-down valuation methodology is used. Before undertaking fixed asset valuations, the appropriateness or otherwise of the conceptual framework from which the numbers are derived and their context should be carefully considered.

FIXED INCOMES

How profitable is the butterfly strategy in Australian fixed income markets? by Tariq Haque, Issue 3, 37–43.

This study investigates the profitability of the butterfly strategy, which is commonly used by active bond fund managers in order to boost portfolio returns. While the strategy's success is conditional on the accuracy of forecast shifts in the yield curve, it also has a defensive feature that may enable any losses incurred to be relatively small. We find that the cash and dollar duration-neutral butterfly does not, on average, generate positive profits, after transaction costs. However, the regression-weighted butterfly often generates a statistically significant profit after transaction costs, of approximately two to three basis points per day.

FUNDAMENTAL ANALYSIS

Fundamental investment research – do US results apply to Australian investors? by Bruce Vanstone, Tobias Hahn and Gavin Finnie, Issue 4, pp. 13–16.

The global financial crisis has sparked renewed interest by many investors in value-based investment approaches. Much published research, particularly from the United States, supports the use of fundamental analysis for value-based investment. This paper indicates how to test a well-documented US fundamental investment strategy but, in line with our previously published research, it also finds that these strategies do not translate well to our market.

GENERATIONAL WEALTH

Changing tides – consumer finance and the generational wealth divide, by Deidre Grover SA Fin and Rachael Norcott A Fin, Issue 3, pp. 49–50.

This Finsia research report highlights a number of important concerns about the level of household debt in Australia, as well as savings levels, mortgage and credit card stress, and retirement savings strategies.

HEDGE FUNDS

Are hedge fund returns predictable? by Robert Bianchi F Fin, Issue 4, pp. 17–23.

While empirical researchers have found that stock, bond and hedge fund returns can be predicted with conventional financial and economic variables, recent econometric studies have shown that many predictive regressions are spurious when the forecasting instrument is a non-stationary variable. In this study, we re-examine the predictability of hedge fund index returns with forecasting variables that are stationary. The results suggest that many financial and economic variables are insignificant at predicting hedge fund index returns.

ILLIQUIDITY

The evolving secondary market for private equity, by Ben Margow F Fin, Issue 3, pp. 11–14.

As a result of the global financial crisis, interest in secondary market private equity has increased over the past 12 months. Following the sharp downturn in listed equity markets, many investors with targeted asset allocation levels found their policy threshold limits under threat. Other investors not necessarily following strict asset allocation targets were also under pressure to exit private equity (PE) investments due to deleveraging, and attempts to avoid future capital calls and minimise expected losses. The growing and evolving secondary market provides a channel for primary investors to exit illiquid investments such as PE.

INFRASTRUCTURE FUNDS

Listed infrastructure funds: funding and financial management, by Kevin Davis SF Fin, Issue 1, pp. 43–47.

With the recent poor performance of many ASX-listed infrastructure funds, the financial management practices of these funds have faced considerable criticism. However, some of these practices can be consistent with principles of good financial management. Since the listed infrastructure fund model is an innovation with many good characteristics, it is important that the failings exposed by the current crisis are correctly identified to enable improvements to this model through better regulation, governance and market discipline.

index ’09

INSURANCE

INVESTMENT STRATEGY

LEVERAGE

MINING

MORTGAGE LENDING

PENSION DRAWDOWN

PRIVATE EQUITY

The evolving secondary market for private equity, by Ben Margow F Fin, Issue 3, pp. 11–14.

As a result of the global financial crisis, interest in secondary market private equity has increased over the past 12 months. Following the sharp downturn in listed equity markets, many investors with targeted asset allocation levels found their policy threshold limits under threat. Other investors not necessarily following strict asset allocation targets were also under pressure to exit private equity (PE) investments due to deleveraging, and attempts to avoid future capital calls and minimise expected losses. The growing and evolving secondary market provides a channel for primary investors to exit illiquid investments such as PE.

PROFESSIONS

Assessing professionalism: the case of financial planning, by Ted Watts F Fin and Brian Murphy F Fin, Issue 2, pp. 40–44.

Based on a relatively small survey of 78 financial planners and their attitudes to professionalism, our research indicates that financial planning, as practised today in Australia, remains an industry rather than a profession. Using a set of attributes of professionalism derived from the literature, the results from the attitude statements provided by the respondents failed to achieve a satisfactory level of professionalism for any of these attributes.

REGULATION

All aboard the PDS Titanic, by M Scott Donald SF Fin, Issue 2, pp. 29–33.

This paper questions the current heavy reliance on disclosure as a regulatory instrument within the context of compulsory superannuation, particularly in relation to product disclosure statements (PDSs). It highlights a number of reasons why such disclosures are problematic, and questions the logic of disclosure in a system where participation is compulsory. It also suggests a need for reforms that rebalance the emphasis in the regulatory scheme shaping superannuation away from disclosure and in favour of other regulatory instruments and strategies.

REGRESSION ANALYSIS

Quantile regression: its application in investment analysis, by David E. Allen F Fin, Paul Gerrans, Abhay Kumar Singh and Robert Powell, Issue 4, pp. 7–12.

Quantile regression is a very powerful tool for financial research and risk modelling, and we believe that it has further applications that can provide significant insights in empirical work in finance. This paper demonstrates its use on a sample of Australian stocks and shows that while ordinary least squares regression is not effective in capturing the extreme values or the adverse losses evident in return distributions, these are captured by quantile regressions.

RETIREMENT INCOMES

A 'perfect storm' in retirement savings, by Norman Sinclair F Fin, Issue 1, pp. 48–53.

This study reveals that investors may be incorrectly assessing their investment risk. With a significant percentage of SMSF funds likely to face high levels of implementation risk, this could help create a 'perfect storm' in the Australian retirement savings pool. These results have far-reaching implications for the SMSF sector, trustees and their advisers, as well as the ATO and the regulators.

Optimising a Transition to Retirement Income Stream, by Hugh O'Reilly, Issue 1, pp. 18–24.

For individuals who have reached their preservation age and who wish to maintain their working hours, this article demonstrates that adopting a unique optimal Transition to Retirement Income Stream is beneficial to their superannuation balance. This is likely to be of significant interest to investors in the current period of high volatility and diminishing returns from the equities market.

RETURN ON INVESTMENT

Are hedge fund returns predictable? by Robert Bianchi F Fin, Issue 4, pp. 17–23.

While empirical researchers have found that stock, bond and hedge fund returns can be predicted with conventional financial and economic variables, recent econometric studies have shown that many predictive regressions are spurious when the forecasting instrument is a non-stationary variable. In this study, we re-examine the predictability of hedge fund index returns with forecasting variables that are stationary. The results suggest that many financial and economic variables are insignificant at predicting hedge fund index returns.

index ’09

RISK MANAGEMENT

RISK MEASUREMENT

This paper examines a number of important portfolio risk management issues by providing an example of risk budgets and risk management control processes during the turbulent period from January 2008 to August 2009. It reveals a high degree of risk concentration within a large stock portfolio, evidence of risk drift over the period, and significant breaches of initial portfolio and sector risk budgets.

RISK TOLERANCE

SELF-MANAGED SUPERANNUATION FUNDS

SHAREMARKETS

SUPERANNUATION

Optimising a Transition to Retirement Income Stream, by Hugh O'Reilly, Issue 1, pp. 18–24.

For individuals who have reached their preservation age and who wish to maintain their working hours, this article demonstrates that adopting a unique optimal Transition to Retirement Income Stream is beneficial to their superannuation balance. This is likely to be of significant interest to investors in the current period of high volatility and diminishing returns from the equities market.

Preservation of lump sum capital under pension drawdown, by Roger Gay F Fin, Issue 3, pp. 24–27.

Most self-funding lump sum retirees take pensions by regular drawdown from a managed fund. But is drawdown too risky? This paper indicates that when an indexed pension is taken from a lump sum invested in a market index fund, the probability of retaining the original value of the lump sum in real terms (or better) reduces in direct proportion to the amount of the annual starting pension. It proposes an alternative retirement income strategy that is generally preferable to drawdown if term annuities can be purchased at a reasonable price, particularly if guaranteed by government.

TECHNOLOGICAL BANKING SERVICES

Technological banking services and operating costs, by Tom Cronje, Issue 2, pp. 34–39.

The provision of technological banking services to customers has been viewed as a crucial means of reducing banks' operating costs in terms of traditional branches and staffing. However, the findings of this paper contradict the expectation that technological banking progress will improve the ratio of staff costs to overhead expenses for all Authorised Deposit-taking Institutions (ADIs).

TRADING STRATEGIES

Fundamental investment research – do US results apply to Australian investors? by Bruce Vanstone, Tobias Hahn and Gavin Finnie, Issue 4, pp. 13–16.

The global financial crisis has sparked renewed interest by many investors in value-based investment approaches. Much published research, particularly from the United States, supports the use of fundamental analysis for value-based investment. This paper indicates how to test a well-documented US fundamental investment strategy but, in line with our previously published research, it also finds that these strategies do not translate well to our market.

TRANSITION MANAGEMENT

Costs and challenges of energy transition, by Andrew McKillop, Issue 2, pp. 25–28.

In estimating the costs involved in global energy transition, difficulties are encountered in integrating a myriad of decisions to be made at all levels, from final users though to government, concerning energy saving versus energy supply substitution by renewable and low carbon energy. However, under any hypothesis, large energy savings or demand-side management will be necessary to mitigate the effects of climate change. This paper indicates that a minimum of US$750 billion to US$1000 billion per year of investment and spending will need to be mobilised to enable global energy transition away from fossil fuels.

VALUATION

Risk-adjusted discount rate estimation for evaluating mining projects, by Mohsen Taheri, Mehdi Irannajad and Majid Ataee-pour, Issue 4, pp. 35–42.

While the preferred methods of mining project evaluation (net present value and internal rate of return) require the definition of an appropriate risk-adjusted discount rate (RADR) to establish investment criteria, most of the literature focuses on the calculation of the company's cost of capital. This approach, however, can create problems if the company's new projects do not have the same risk as its existing business. This paper discusses the methods for selecting the discount rate – in theory and in practice, both for mining and general projects – and proposes some guidelines for selecting the RADR.

The valuation of in-situ plant and machinery, by Wayne Lonergan SF Fin, Issue 4, pp. 31–35.

The use of conventional cost-based valuation techniques can significantly understate in-situ plant and machinery values in fixed asset intensive businesses, especially in mining related assets. There are also important potential flow-on consequences to other valuations where a top-down valuation methodology is used. Before undertaking fixed asset valuations, the appropriateness or otherwise of the conceptual framework from which the numbers are derived and their context should be carefully considered.

index '09

WORKOUTS

Shadow directorship risk for lenders in informal workout scenarios, by Eric Flaye A Fin, Issue 3, pp. 32–36.

In the wake of the global financial crisis, it has become increasingly common for lenders to pursue 'informal workout' arrangements with distressed borrowers in an attempt to avoid the destruction of value often associated with formal insolvency proceedings. Although shadow directorship risk for lenders has been described as 'almost entirely imaginary' under English law, the same cannot be said for the position of lenders under Australian law. This paper makes some practical suggestions that may assist lenders in mitigating shadow directorship risk when engaging in informal workouts with Australian corporate borrowers.

AUTHOR INDEX