BEST OF THE BEST

SHARES

	5 year return %pa	Minimum	Size	Fees
Prime Value Growth Fund	19.50	$40,000	$15.68m	1.45
Perpetual's Investor Choice: Australian Shares	12.79	$2,000	$119.30m	1.95
Tyndall - Australian Share Portfolio	12.52	$2,000	$25.72m	1.99

INTERNATIONAL

	5 year return %pa	Minimum	Size	Fees
Platinum International Fund	16.96	$25,000	$5.1 bn	1.50
PM Capital Absolute Performance Fund	7.90	$40,000	$817.62m	1.09
Advance International Sharemarket Fund	1.28	$2,000	$137.50m	2.05

FIXED INTEREST

	5 year return %pa	Minimum	Size	Fees
UBS Inflation-Linked Bond Fund	7.86	$20,000	$63.50m	0.35
Deutsche Australian Bond Fund	6.55	$25,000	$51.14m	0.50
EQT PIMCO Australian Bond Fund	6.44	$5,000	$2.04m	0.72

PROPERTY

	5 year return %pa	Minimum	Size	Fees
Aust Unity Property Securities Fund Growth	19.55	$1,000	$44.15m	2.66
UBS Property Securities Fund	17.03	$20,000	$739.40m	0.85
APN Property for Income Fund	15.18	$5,000	$1.2bn	1.06

Source: Morningstar, based on consistency of returns over five years. Returns are after fees, excluding entry and exit fees.

CRYSTAL BALL

What the fund managers see ahead

Han Lee, Prime Value: The next few months will be OK. I'm nervous about the banks, especially as household balance sheets are so bad. I'm staying away from stocks that depend on domestic cycles, unless the price is right. I like the resources sector.

Geoff Wilson, Wilson Asset Management: What will slow this market is a rise in interest rates which won't be until the first quarter next year. But media stocks will be 50 per cent higher – Ten, Seven, Southern Cross Broadcasting and Prime TV.

Erik Metanomski, MMC Asset Management: Although the economy is very strong it's time to start being cautious. It's incredibly difficult to find anything like reasonable value. The market is pretty close to the top.

Kerr Neilson, Platinum Asset Management: We'll see reasonable markets. Cheap money is a remarkable palliative but there are still risks out there.

Michael Good, Tyndall: In the next 12 months we expect 4 to 5 per cent dividends and growth of 7 to 8 per cent. It'll be another good year. We're overweight (i.e. have proportionately more invested) in resources and cyclical stocks and underweight (i.e. have proportionately less) in financial stocks.

Howard Brenchley, APN Funds Management: We're taking a conservative line. We're not buying [property trusts] madly. Smaller funds will appear over the next 12 months

Paul Moore, PM Capital: Stocks are strongest just as they get to the end of their cycle. The banks are running into a headwind and in 12 months they'll be going south. People should be thinking about going global.

Anton Tagliaferro, Investors Mutual: The next 12 months will be volatile. In a year's time the market will be around the same level it is now or a bit lower.

Source: The Age, 14 November 2004

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What goes up, must come down

The strong sharemarket has fund managers sweating. So, asks **David Potts**, what's next?

THE better it gets, the more they worry. Which just goes to show that fund managers aren't like you and me.

And boy are they fretting.

The sharemarket has soared more than 40 per cent since its bottom 18 months ago, and the top guns have had no trouble keeping up with that.

But what worries them is that a bull run like that can't be sustained. Prolonged for a few months, maybe. But sustained over time? No way.

Not to mention the more personal concern: how do you follow an act like this? The better funds are running at a 20 per cent annual return, twice the historic norm.

The funny thing is that when most funds were going backwards, along with the sharemarket, money managers were in their element. So many bargains were popping up it was like a sharemarket sales catalogue.

And did I mention performance fees? They're easier to earn when stocks are bought cheaply and have a bit of oomph in them than those bought near the top of the market where every 1 per cent gain is a struggle.

When the going gets easy, fund managers get tough.

Bottoms up

While techniques differ, the top guns have one thing in common and it's an invaluable lesson for the rest of us. They ignore what the overall market is doing, instead trawling for stocks that are priced below their true value. But this takes a lot of homework. Indeed, by the time they've found the right stock, the rest of the market has probably come and gone.

Geoff Wilson, whose listed Wilson Asset Management's equity fund returned a compounded 716 per cent, excluding fees, for the six years it was open, had 870 meetings with the managers of prospective investments in the year to June. Not that he's counting; but he must have a one-hour-per-page diary.

"We're increasing our cash levels where we can in a rally," he says. "It's incredibly difficult to find value out there."

He admits he hates this market, even though his WAM Capital Fund, floated in 1999, has posted a gross return, including dividends but before fees, of 220 per cent.

"The best market to invest in is where expectations are very low," he said.

Perhaps we should come back later.

Although the top guns aren't risk-takers, they will venture where brokers fear to tread. It's no coincidence that the best fund managers, who range from Han Lee at the tiny Prime Value Asset Management to John Sevior and Emilio Gonzalez at the giant Perpetual, will look at smaller companies that analysts, who see no commission in them, tend to ignore.

Lee's Prime Value Growth Fund is returning 19.5 per cent a year, a survey by Morningstar for *AFR* Investor shows, making him Australia's top money manager. But he insists 8 per cent a year from shares is more realistic, while a good manager can achieve "low teens".

Winner loses least

Lee likens investing to golf. "It's not the beautiful swing that wins the game," he says, offering momentary hope. "It's the mistakes you avoid." Oh.

Considering the returns he gets, he is surprisingly conservative. In fact, he's so conservative he thinks bank stocks are risky.

Pointing to our low savings and high foreign debt, he warns "household balance sheets are bad" and this will eventually rebound on the banks.

He's not alone. Tyndall is also keeping its distance from the banks, although chief executive Michael Good says that's more because other stocks look better, rather than any problem with the banks.

Paul Moore of PM Capital warns they're running into a headwind and he expects the market to adjust soon, anticipating a slowdown in their growth next year.

Not all the top guns think the sharemarket has become too pricey. "It was an excellent reporting season which is not fully reflected in prices," says Good, who managed to avoid the giant boo-boo of the dotcom boom because "we couldn't value it" – which, with the benefit of hindsight, was because there wasn't any.

"People think this isn't sustainable or the market is overpriced. We don't think so," he says.

Strategy

While nobody rules out the odd opportunity waiting to be discovered, there are different ways of searching.

Lee calculates a stock's chances of rising ("It's a percentage game.") By the same token he never has a lot invested in a single stock.

When the price rises, it also means taking profits. Even in the case of Gunns, one of his best calls, "every time the price doubled we halved our holding".

All the top guns are, if you'll pardon the unfortunate expression, bottom pickers. They tend to buy stocks with a low price-to-earnings ratio – priced cheaply relative to likely profits. Again the exception is Tyndall, which will look at so-called growth stocks – shares that are relatively more expensive because of their potential – and, as Good puts it, "not be a slave to the P/E ratio".

Another top-performing fund, Erik Metanomski's MMC, is holding 60 per cent of its investments in cash.

"I want to preserve capital and have cash available for when the market drops significantly," he says, pointing to the narrowing gap between the prices of small-capitalisation stocks (anything not in the top 100 shares) and leading stocks as a warning.

Metanomski selects stocks that are out of favour, but be careful. "Usually there's a good reason for a bad price," he warns.

The trick is to treat a share purchase as if you were buying the whole business. "What return are you getting for that price? And look at the free cash flow," he says.

The unsung heroes of money-making must be Soul Pattinson, the chemist people. And coalmining, building materials, television and . . . Anyway, Soul Patts has been running a huge investment portfolio on the side for yonks. The annual return in the past 10 years has been 21.3 per cent, chairman Robert Millner says. That's 5 per cent a year better than the overall sharemarket – technically a 30 per cent per annum improvement.

"We don't try to match what's in the sharemarket index," he says. "We look long term."

It's certainly a wonderful example of patience reaping its own rewards, especially considering Millner prefers stocks such as Telstra because of the high dividends. There's hope for us yet.

Soul Patts has also spun off a funds management arm, Soul Pattinson Fund Management, which runs a small companies fund. It returned 50.1 per cent in the year to September 30.