



AVENUE CAPITAL
Management

Newsletter

AUTUMN 2005

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2004 was a great year for investors

All asset classes performed well in the year ending 31 December 2004 but there is more to the raw figures than meets the eye.

A resurgent world economy, conclusive election results in the US and Australia and stabilising oil prices meant improvements in national economies and company profits. Share prices rose in most countries around the world. In Australia, our love affair with property continued and merger activity boosted Listed Property Trust returns. Even though interest rates are low in most countries, bonds produced good returns.

This is a far cry from 2002 when doomsayers were predicting the end of the world as share markets slumped. Remember when Aussie shares returned minus 8% and international shares dropped almost 27%?

Australian shares. Based on the S&P300 Accumulation index, Aussie shares produced returns of 27.9% for the year. A key point to note is that dividends contributed 5.2% of this return, roughly the same return from cash investments. Shares can provide significant income as well as growth and the franking credits (tax credits) are a bonus.

Most sectors of the market performed positively but the best gains did not come from the big companies. Mid sized companies (the S&PMidcap 50 index) returned 43.2%.


Some companies produced stellar returns – Aristocrat Leisure and UniTab returned 478% and 79%. Oil companies Caltex and OilSearch returned 135% and 77%. There were big opportunities for managers or individuals who could pick these winners. There were also losers. Biotech company Chemeq fell 77% and Millers Retail dropped 40%.

International shares. World growth stimulated all the major share markets. As is often the case in growth spurts, the best returns come from unexpected sources. Towards the end of 2004, Columbia, Mexico, Austria and India showed significant returns.

As always with overseas investments, currency movements play an important role. Using the MSCI Accumulation index, international shares returned 10.3% (unhedged) as the Aussie dollar rose 4%. Fully hedged the increase was 15.2% for the year.

Listed property trusts. Property remains a popular asset class because of its lower volatility and reliable income. Based on the S&P Property Trusts Accumulation index, listed property was the best performing asset class for the fourth year out of the last five. In 2004 it returned 32.2% and 9.2% of this return was from income distributions. Even when growth is low, good quality, well managed property can be expected to pay strong levels of income.

A significant part of the growth was due to merger activity between some of the largest funds. It is unlikely this performance can be maintained in 2005.

With the benefit of hindsight it is easy to pick the surges and declines in investment markets – not so easy in advance. Hence the importance of setting a long term strategy, staying invested and being diversified. In this way you can be sure your portfolio gets the benefits of years like 2004. 

Source: ASX and Standard & Poors.



The Importance of Regularly Reviewing Your Investment Portfolio

The importance of regularly reviewing your investment portfolio and your personal circumstances to ensure that your investments remain appropriate to your needs can not be overstated. From our experience investment portfolios need to be adjusted over time, not only in response to changing investment markets and economies, but also in response to changing personal circumstances.

If you are currently not reviewing your financial affairs on a regular basis we encourage you to contact your Avenue adviser to discuss their review services.

It's a Big World Out There

The planned merger of Proctor and Gamble and Gillette will create a company valued on the US stock market at \$186 billion.

Big? Well yes and no.

This is just the latest merger of many over the last few years – banks and insurance companies, car makers, media firms have followed this track. Getting bigger helps generate economies of scale, increases the ability to compete in global markets and helps pay for large research and marketing overheads.

Proctor and Gamble makes household and personal products with well known names like Max Factor and Pringles. Gillette owns brands like Oral-B and Duracell. Between them they will employ about 140,000 people and will have plants in over 80 countries. The merged company would be the ninth biggest in the world out-sizing well known names like IBM and Coca Cola.

But there are companies even bigger. Measured in US\$, the biggest eight companies are all American headed by General Electric (\$328b), Microsoft (\$287b), Pfizer (\$285b), ExxonMobil (\$277b) and Citigroup (\$255b).


Looking at the rest of the world, other big names are:

United Kingdom	HSBC - banking	\$231b
Netherlands	Royal Dutch Shell – oil & gas	\$211b
Japan	Toyota – cars & consumer goods	\$150b
Switzerland	Nestlé – food, drink, tobacco	\$137b
Finland	Nokia – electronics	\$135b
Korea	Samsung – semiconductors	\$94b

The biggest Australian companies (also measured in US\$) are BHP Billiton valued at \$57b (70th biggest) and News Corporation (\$55b and 77th). Significantly both companies are now listed outside Australia to access capital in world markets.

Many 'big' Australian companies are minnows on a world scale. Telstra, valued at \$47b is dwarfed by Vodaphone (\$174b). If the four big Australian banks are added together they would be worth \$130b and would be ranked as the third biggest bank in the world. Oil and gas companies like BP (\$173b) and ChevronTexaco (\$92b)

are enormous compared to Woodside Petroleum (\$8b) and Santos (\$3b). AMP is worth \$7b compared to American International worth \$195b.

Whilst the Australian share market has performed well in recent years, you can see why many advisers recommend exposure to international markets - where the 'big boys' play. 

Source: www.forbes.com
All amounts are in US dollars.



THE LIGHTER SIDE

“ It is always wise to look ahead, but difficult to look farther than you can see. ”

Winston S. Churchill

“ Marriage is a wonderful invention; but, then again, so is a bicycle repair kit. ”

Billy Connolly

“ We know the human brain is a device to keep the ears from grating on one another. ”

Peter de Vries

“ I know why there are so many people who love chopping wood. In this activity one immediately sees the results. ”

Albert Einstein

Seven Steps to a good Super Choice

Many employees will get the chance to choose where their super fund contributions are made after 1 July 2005. The best advice for now is to follow the Boy Scouts motto and 'Be prepared'. Taking these steps will ensure you are ready for 1 July.

Step 1 – Ask your employer whether you will get a choice. Choice does not have to be provided to all employees such as those covered by some State awards.

If Choice is available, the next step is to review your current superannuation fund.

Step 2 – Find out what investment choices your super fund offers. Super is a tax-effective way to invest for retirement and there should be a range of choices to suit the different needs of members.


Step 3 – Find out what fees are being charged. All super funds charge fees. Are you getting value for your money? Remember that the 'cheapest' fund is not necessarily the best one for you.

Step 4 – Find out what insurance options are offered. Super funds provide a simple, low cost and tax-effective way to get insurance cover in the event of death and disability. Often it is difficult to replicate this same level of cover externally (particularly as you get older).

Step 5 – Find out who runs your super fund and satisfy yourself it is a reputable and stable organisation.

Step 6 – Find out what extra services or benefits may be available.

Step 7 – Find out what happens if you don't make a choice. Employers must have a 'default' option for people who make no choice.

Having completed this exercise, if you are not satisfied with your current superannuation fund arrangements it's time to consider the alternatives. 



Appeal creates an Opportunity


A recent ruling provides an opportunity for small business owners to boost their superannuation and that of their spouses.

In the recent 'Ryan' case, the husband provided consulting advice and his wife provided support and secretarial services to the business. He was paid a higher income than his wife reflecting their value to the business. The company also made superannuation contributions for them both and was able to claim a tax deduction for them.

There is no limit on the superannuation contributions that the company can make but there is a limit on the amount that can be claimed as a deduction. This limit depends on the age of the employee and is indexed each year. The limits in 2004-05 is:

AGE	LIMIT
Under 35	\$13,934
35 - 49	\$38,702
50 and over	\$95,980

In the Ryan case the company made a much larger contribution for the wife than for her husband. The amount claimed by the company was less than the maximum deductible limit. The Tax Office has accepted that superannuation contributions can be made that exceed the value of services provided by the employee without there being concerns of tax avoidance.

This ruling may provide an opportunity to split super contributions between spouses in a tax effective way. Beware though that the ruling is based on the particular circumstances of the Ryan case and you should get expert advice before taking action. To discuss this opportunity in more detail contact your adviser. 

Go South - Really South

Where's the coldest, driest, windiest, highest and remotest place on earth? Antarctica of course.



It may be barren and empty, but many visitors have described a trip to the ice as one of the most memorable experiences of their lives. Antarctica is a big place, almost twice the size of Australia although all but the mountain peaks are ice covered. Temperatures of -89°C and winds of 145 kph have been recorded there and driving snow can cause a white-out where you could get lost five metres from base camp.

The safest way to see Antarctica is from a Jumbo jet flying over the ice but a more adventurous way is to sail from Ushuaia in southern Argentina. Voyages are typically for 10-14 days and will take you along the peninsula of Graham Land poking out from the main land mass of Antarctica. The 650km passage across Drake Passage can be turbulent because cold and warm ocean currents meet there. But the bonus is that the waters are nutrient rich and attract whales, orcas, and seabirds, particularly albatross.

Many people are excited about seeing their first iceberg but soon come to realise that ice comes in countless different shapes, forms and colours all set against rock, sea and sky. It's easy to come back with hundreds of photos of ice!

Closer to the mainland is also the home of seals, penguins and countless birds. Cruises usually plan excursions onto the ice but these are dependent on the weather. One popular spot is Deception Island - a collapsed and flooded volcano in the shape of a horseshoe. A ship can enter through the opening called Neptune's Bellows and, in the calm waters, go ashore to see abandoned whaling stations, exploration camps and military bases. One highlight for the brave is to swim in the thermal springs - the sensation has been described as sitting on a hot plate with your feet in icy water!



At Avenue Capital Management, we are committed to providing you with quality service, ongoing care and attention to detail.

We promise to always treat you, our clients, with respect, honesty, integrity and professionalism.

We will be open and transparent in all our dealings with you.

We will answer all your questions to the best of our ability.

And we will provide you with advice that is objective and suited to your needs.

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