

Know when to hold 'em

Pop the Dom Perignon and prize open a tin of your best beluga. The sharemarket closed above 5000 points for the first time ever (in mid-March) and now, it seems, the sky is the limit. Do I hear 6000, anyone? But before the party gets too crazy, remember what goes up most often comes down. We asked five experts about the defensive stock plays they have at the ready.

UTILITY STOCKS



STUART FECHNER
RESEARCH MANAGER,
NAVIGATOR

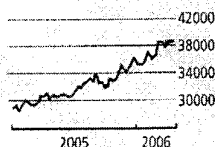
MY BEST DEFENCE

Utility-based stocks, including those linked to toll roads, tend to exhibit a sound level of downside protection. Usage of products and infrastructure provided by such companies tends to be more stable and less subject to the volatility associated with the general economy. They tend to provide greater income consistency.

TIME TO USE IT?

Valuations are high, but the market is supported by sound economic fundamentals. Broadly speaking, company profits are sound and company balance sheets are strong. This, coupled with low interest rates, strong employment and low inflation, suggests the market should be supported into the near future.

S&P/ASX200 ACC. UTILIT.



BANKS



HANS KUNNEN
HEAD OF INVESTMENT MARKETS
RESEARCH, COLONIAL FIRST STATE

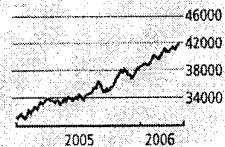
MY BEST DEFENCE

It depends a bit on what causes any downturn. In my view, defensive stocks are those that have earnings certainty. In the Australian context, that tends to be the very large retailers, the toll roads, plain-vanilla listed property trusts and the banks. These companies are expected to at least maintain if not grow their earnings.

TIME TO USE IT?

Market sentiment reflects the positive outlook for economic growth. If the world spins at a decent pace then good companies can lift their earnings. The market's enemies are recession and greed. Recession seems some way off and the market is based on solid earnings growth rather than speculative greed.

S&P/ASX200 ACC. BANKS



BERKSHIRE HATHAWAY



JAMES CRAIGIE
CHIEF EXECUTIVE OFFICER,
PETERS MACGREGOR CAPITAL MGT

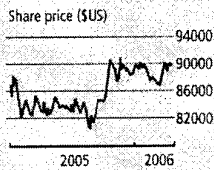
MY BEST DEFENCE

We have found it hard to find opportunities in the markets. We only have nine stocks in our fund and like them all – in good and bad equity markets. One standout would be Berkshire Hathaway. It has a great spread of businesses and is sitting on high cash balances. A market drop could present an opportunity.

TIME TO USE IT?

As a long-term value investor, we would rather sit in cash than hold overvalued investments. If a company's share price exceeds its inherent valuation then the risk is on the downside and we would rather sit on the sidelines. If you are a long-term investor, sitting on the sidelines when prices are too high makes sense.

BERKSHIRE HATH. (BRK/A)



BRAMBLES



DOUG WEBBER
NATIONAL PRACTICE MANAGER,
MACQUARIE WEALTH MANAGEMENT

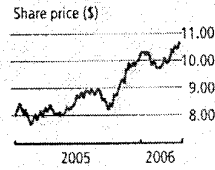
MY BEST DEFENCE

If our market falls relative to other markets for reasons unique to our economy, you might want exposure to companies that derive much of their revenue overseas – like Brambles or Computershare. But if markets fall globally, companies with operations that are largely immune to economic cycles would be in demand.

TIME TO USE IT?

The state of the market is largely irrelevant in the context of this question. Any portfolio should contain some exposure to defensive stocks. In a strong bull run, some people may doubt the wisdom of such an approach. But a bull run can come to a sudden end. When it does, an investor will be thankful for that defensive position.

BRAMBLES (BIL)



STOCKLAND



CHRIS LEPHERD
PORTFOLIO MANAGER,
PRINCIPAL GLOBAL INVESTORS

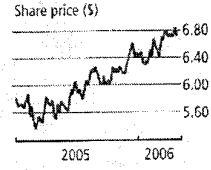
MY BEST DEFENCE

Property, infrastructure and banking provide defensive characteristics in a downturn. They generally have greater earnings certainty and higher yields, which protect them from significant loss. In the property sector, investors should look at Stockland and Mirvac. Both provide exposure to a robust, diversified business.

TIME TO USE IT?

The market is not that stretched on a fundamental valuation basis and there is not the hysteria associated with bubble markets such as the tech boom. I don't expect an exodus from stocks like in October 1987. What we will see is an adjustment based on the fundamentals within each industry. There is a risk of a rate increase.

STOCKLAND (SGP)



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