

MARGIN LENDERS ZOË FIELDING

More get call to make good

Margin lenders hit the phones again last night, talking to investors who had sustained falls in the value of their portfolios, as the local sharemarket tumbled for a second consecutive day after further trouble in the United States.

People who have borrowed to invest in shares or managed funds receive margin calls when falling investment values leave their portfolios' gearing ratios below the levels that lenders will allow.

Margin lenders generally let investors borrow between 40 per cent and 75 per cent of the total value of their investment.

Borrowers who get a margin call are forced to take immediate action to return their balances to the acceptable gearing level by injecting cash or other securities into the portfolio, or by selling assets.

Commonwealth Bank of Australia, which has about 85,000 margin-lending clients, called 410 of them yesterday, after ringing 320 on Monday.

St George Bank put in calls to about 1 per cent of its margin-lending clients on Monday and a similar number yesterday.

Leveraged Equities called 130 clients on Monday and expected to call a larger number last night.

Macquarie Investment Lending also made a larger number of margin calls than usual on both days.

Market volatility over the past year has led to consistently high numbers of margin calls.

Lenders made a total of almost 25,000 margin calls in the three months to June, figures from the Reserve Bank of Australia show.

During the turbulent first quarter, investors received more than 50,000 margin calls — the highest rate since March 2003.

Adelaide Bank Leveraged Equities general manager Eric Blewitt said some investors had got out of their margin loans but those who were still borrowing to invest were taking a long-term view and were geared at relatively conservative levels.

"People generally have



Tumbling dice . . . markets worldwide are in a rout.

Photo: BLOOMBERG

recalibrated their level of gearing for themselves either through previous forced sales or by taking a more conservative view."

The majority of investors are choosing to hold on to their shares.

The average gearing level across the industry was about 38 per cent at the end of June, according to RBA figures. This was down from 43 per cent at the end of the March quarter.

Leaving a buffer between the amount borrowed and the lender's limit gives room for the investment to drop in value before incurring a margin call.

The majority of investors who receive a margin call are choosing to hold onto their shares.

"We still have a very low percentage of people selling some or all of their portfolio to satisfy margin calls," Macquarie Investment Lending's head of sales and marketing, Peter van der Westhuyzen, said.

In August, which was a volatile month on the markets, only 13 per cent of margin calls were satisfied by the sale of the underlying assets, he said.

The value of outstanding margin loans has been falling since reaching a peak of \$37.8 billion at the end of December. At the end of the June quarter, loans outstanding totalled \$31.9 billion.

S&P/ASX 200 – THE DAY'S BEST AND WORST

Company	Price	Up	%	Company	Price	Down	%
Centro Property	0.088	0.016	22.22	Babcock & Brown	1.05	-0.53	-33.54
Centro Retail Group	0.11	0.01	10.00	Allco Finance Group	0.145	-0.035	-19.44
APN/UKA European	0.235	0.01	4.44	Asciano Group	3.31	-0.73	-18.07
Futuris Corporation	1.47	0.06	4.26	Murchison Metals	1.425	-0.245	-14.67
Felix Resources	19.80	0.80	4.21	Alesco Corporation	5.90	-1.01	-14.62
Cabcharge Australia	6.95	0.23	3.42	B&B Infra Group	0.275	-0.045	-14.06
Australand Property	0.61	0.02	3.39	HFA Holdings	0.94	-0.115	-10.90
Macquarie DDR Trust	0.34	0.01	3.03	Mincor Resources	1.20	-0.13	-9.77
Tower Australia	2.90	0.08	2.84	Gunns	1.27	-0.135	-9.61
David Jones	4.02	0.11	2.81	Paladin Energy	4.28	-0.42	-8.94

Source: Reuters

S&P/ASX MIDCAP 50 – THE DAY'S BEST AND WORST

Company	Price	Up	%	Company	Price	Down	%
Futuris Corporation	1.47	0.06	4.26	Asciano Group	3.31	-0.73	-18.07
David Jones	4.02	0.11	2.81	B&B Infra Group	0.275	-0.045	-14.06
Cochlear	58.00	1.48	2.62	Paladin Energy	4.28	-0.42	-8.94
James Hardie cdi	5.20	0.13	2.56	Queensland Gas	4.20	-0.31	-6.87
C'wealth Property Office	1.365	0.02	1.49	Riversdale Mining	7.70	-0.55	-6.67
ConnectEast Group	0.82	0.01	1.23	Incitec Pivot	132.00	-7.93	-5.67
United Group	13.99	0.15	1.08	Oil Search	5.63	-0.32	-5.38
Coca-Cola Amatil	9.05	0.03	0.33	Sims Group	30.00	-1.70	-5.36
CFS Retail Property	2.14	0.00	0.00	Mount Gibson Iron	1.95	-0.11	-5.34
Aristocrat Leisure	7.00	0.00	0.00	Macquarie Office	0.925	-0.05	-5.13

Source: Reuters

S&P/ASX SMALL ORDINARIES – THE DAY'S BEST AND WORST

Company	Price	Up	%	Company	Price	Down	%
Centro Property	0.088	0.016	22.22	Allco Finance Group	0.145	-0.035	-19.44
Centro Retail Group	0.11	0.01	10.00	Jabiru Metals	0.25	-0.05	-16.67
Rubicon America Trust	0.045	0.003	7.14	Admiralty Resources	0.085	-0.015	-15.00
Kingsgate Consolidated	4.50	0.22	5.14	Murchison Metals	1.425	-0.245	-14.67
Citigold Corporation	0.225	0.01	4.65	Alesco Corporation	5.90	-1.01	-14.62
APN/UKA European	0.235	0.01	4.44	Rubicon Europe Trust	0.039	-0.006	-13.33
Felix Resources	19.80	0.80	4.21	Silex Systems	4.69	-0.71	-13.15
Flexigroup	0.515	0.02	4.04	Mineral Deposits	0.525	-0.065	-11.02
Cabcharge Australia	6.95	0.23	3.42	HFA Holdings	0.94	-0.115	-10.90
Australand Property	0.61	0.02	3.39	CopperCo	0.22	-0.025	-10.20

Source: Reuters

S&P/ASX 300 RESOURCES – THE DAY'S BEST AND WORST

Company	Price	Up	%	Company	Price	Down	%
Kingsgate Consolidated	4.50	0.22	5.14	Bannerman Resources	0.50	-0.175	-25.93
Citigold Corporation	0.225	0.01	4.65	Jabiru Metals	0.25	-0.05	-16.67
Felix Resources	19.80	0.80	4.21	Admiralty Resources	0.085	-0.015	-15.00
Resolute Mining	1.28	0.03	2.40	Murchison Metals	1.425	-0.245	-14.67
Sundance Resources	0.24	0.005	2.13	Mineral Deposits	0.525	-0.065	-11.02
Alumina	3.64	0.07	1.96	CopperCo	0.22	-0.025	-10.20
Karoon Gas Aust	4.11	0.07	1.73	Compass Resources	0.53	-0.06	-10.17
Newcrest Mining	21.45	0.35	1.66	Mincor Resources	1.20	-0.13	-9.77
BHP Billiton	36.40	0.35	0.97	Marion Energy	0.66	-0.065	-8.97
Rio Tinto	106.85	0.42	0.39	Paladin Energy	4.28	-0.42	-8.94

Source: Reuters

WHAT THE CHARTS SAY DAVID COE

How does 4270 sound as a floor for ASX 200?

The analyst who correctly forecast the S&P/ASX 200 would fall to 4800 is warning of another six weeks of falling share prices — with the benchmark index as low as 4270.

David Hunt, president of the Australian Professional Technical Analysts Association and market strategist with I-Deal Financial Group, warned that the "fat lady was singing" as the market peaked in mid-October. In mid-May when the index had climbed back to 6000, he told *Smart Investor* magazine and fund managers that the rising tide was about to turn down again.

Now with the index under 4800, he says worse is to come. "Any rallies will struggle. The market is weak and it is entering its seasonally weakest period."

"After this fall, it will be time to

go looking for bargains for a nice rally of about 50 per cent. The fundamentals will be great. That will be the time to look at balance sheets. The error many advisers and investors make is to believe fundamentals at the top of a bull market and think something is worth 20 to 50 times earnings."

Hunt, who uses a combination of fundamentals, time cycles and market geometry, expects the S&P/ASX 200 to bottom in late October or early November, after the US's S&P 500 bottoms in mid-October.

"The time cycles are more important than price targets. In a panic, targets can get blown away. When markets make real bottoms, they fall hard."

"The next achievable target for the ASX is 4220-4270. There's an

outside chance of it hitting 3440 and if we get down that far this year, it will be the end of the bear market. If not, we will rally to February and then get smashed."

The signal in the ASX benchmark that most worries Hunt is the double top of July 24 and September 2 around 5160 and the continuation patterns the lows are making. "A double top in a down trend really is a sign of worse to come," he says.

Hunt also expects crude to find bottom around \$US90 in early October.

"That will put juice into Aussie resource stocks."

And gold's downtrend should bottom in early November, he says.

■ The author may hold positions in securities mentioned.

Warning signs

S&P/ASX200 Daily (index, points)



SOURCE: BLOOMBERG

First we put around 95% of the world's companies* under the microscope.
Then we choose 100-150 of the best. The result? The Fidelity Global Equities Fund.



*Our analysts cover approximately 95% of the world's listed companies by market capitalisation (as at 1 January 2007). FID0378/GE/3x7/AFR