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Veteran stock picker says market bounce may not last

By John Collett
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Australian investors should not think they are out of the woods yet, says the founder of fund manager Investors Mutual.

Anton Tagliaferro believes the sharemarket has run too hard too soon and could slide again this year if expectations for improvements in corporate earnings do not materialise.

The ASX 200 slumped 36 per cent from a record high of 7162 in February to as low as 4546 just a month later. However, it has staged a remarkable recovery since, regaining much lost ground.

Anton Tagliaferro, founder of fund manager Investors Mutual, says he would not be surprised to see the market recovery reversed. *CREDIT: FIONA MORRIS*

Tagliaferro is calling the recovery a potential "dead cat bounce", a term used to describe a false, temporary recovery from a significant decline, or a bear market followed by a prolonged continuation of the downtrend.

Tagliaferro, one of Australia's most experienced stock pickers, says recent market optimism inspiring the recovery could be misplaced as the true state of the economy has been masked by government spending on programs such as JobKeeper and JobSeeker.

Still, his fund has been buying shares in good-quality companies with solid dividend yields on any price weakness during the downturn.

Investors Mutual, founded by Tagliaferro in 1998, shuns speculative stocks in favour of well-established firms with "real" businesses and sustainable earnings.

Some of those companies have reported big revenue drops – sometimes to almost zero – in the coronavirus crisis as parts of the economy closed. However, Tagliaferro says they are still "good companies" that will see earnings quickly rebound.

Companies targeted by the fund include **Telstra, Coles, Orica** and **Crown Resorts**.

"Our focus remains bottom-up analysis and income is going to remain crucial," Mr Tagliaferro says.

Telstra shares can be bought on a cash dividend yield of about 5 per cent and Coles shares can be bought on a yield of about 4 per cent, he says.

"Those are attractive, sustainable dividend yields in an environment where interest rates are going to stay low for a long time," he says.

Telstra has a 50 per cent market share of both fixed-line and mobile telco markets, 5G leadership and a deal with the NBN under which it pays the telco for use of its infrastructure. It is well placed compared to competitors Vodafone and Optus, he says.

Crown Resorts was "belted pretty hard" in March, with its share price being halved to $6. It has since recovered to about $10 and "we remain positive" on the company over the next three to five years, Tagliaferro says.

Coles has a strong balance sheet, good cash-flows and new management after being spun off by Wesfarmers at the end of 2018, and is making significant operational changes, he says.

It has recently renegotiated a number of long-term service contracts, including haulage, and is upgrading its IT systems, spending on warehouse consolidation and automation and targeting other cost savings, Tagliaferro says.

Investors Mutual favours the explosives maker Orica – the top player in the global market.

It has high barriers to entry as you cannot easily ship explosives around the world, Tagliaferro says. The company has long-term contracts and continues to invest in research and development to remain in the forefront of technological advances.

While some of its operations have been hurt by the COVID-19 pandemic due to the temporary shuttering of mines in other parts of the world and its earnings for 2020 will be affected, "we think the outlook is quite good for 20121 and 2022", he says.