

## NZ share selection 2005

- brokers produce no real surprises

Recently, the NZ Herald published the top “5 picks” of nine share brokers in New Zealand for the 2005 year. It also published the returns of the brokers’ 2004 picks.

Details of the 2005 picks and the returns of the 2004 picks are over the page. This article looks at the 2004 results in the context of what happened in the market.

One year is too short a period to draw long-term conclusions. Also, a 5 share portfolio is less than ideal from a diversification point of view.

### 2004 in perspective

2004 saw the local share market, as measured by the NZSX50, return 25.1% pre-tax, including imputation credits. This is more than double what we would expect, on average, in a normal year.

Also, while the index was up 25.1%, the average of the returns of the 50 shares that make up the NZSX50 index was 28.7%, or 3.6% above the index return. The range of the returns of the individual shares was from -29% to +90%.

Of the 50 shares in the index, 28 performed above and 22 performed below the index return. The probability of randomly picking a share that was above index was therefore 56%. Given this, we would expect a random selection of shares to have outperformed the index. For this reason alone, most traditional managers should have done well relative to the index and, given the index return, done well in absolute terms.

Of the 50 shares, only 6 had negative returns and of those, two, The Warehouse and Air New Zealand, produced returns lower than -15%. Avoiding one or both of these was the key to getting above average returns.

### Broker results

The returns of the brokers, published in the New Zealand Herald, are calculated from closing price on 15 December 2003 to closing price on 17 December 2004. The NZSX50 gross return pre-tax, including imputation credits for that period was 23.6%. It should be noted that the brokers were not limited to the top 50.

So how did the brokers’ picks perform? The first issue is what did we expect.

When we appoint a broker, ideally:

- We want more share recommendations to be above average, than below. A random selection should normally produce a 50:50 split and we want better than random. Last year they should have got a 56:44 split.
- We should avoid the really badly performing shares. It is not possible to always avoid shares that lose money, but avoiding the disasters is important.
- We need a portfolio that is not reliant on a single theme to be successful, i.e. we want diversification.

Of the returns from the brokers’ 2004 picks, we can observe:

- Half (i.e. 5) outperformed the market and half underperformed. Overall, this is not a good result.
- Most brokers picked only 2 to 3 shares (out of 5) that outperformed the market i.e. about half. Again, not much better than random.
- The broker with the highest average return, had the highest range of returns (more than 2.5 times higher than the next highest range of returns). In fact, that broker was dependent on a single share to get the top result.
- Only 3 of the 10 brokers avoided the “disaster” shares i.e. those that were below -15%.
- 2 of the ten brokers avoided negative returns, produced above average performance and had a relatively low variability between individual share returns. These two probably achieved what an investor expects.

These observations offer no real surprises. Statistically, that is what you would expect from 1 year to the next - the only variation might be in the names of the brokers.

### 2005 broker picks

For the record, the 2005 picks of the brokers are:

#### ABN AMRO

Air New Zealand  
Auckland Intl Airport  
Contact Energy  
Telecom  
Waste Management

#### ABN AMRO Craigs

Auckland Intl Airport  
Fisher & Paykel Healthcare  
Fletcher Building  
Hellaby Holdings  
Telecom

#### ASB Securities

Fisher & Paykel Healthcare  
Guinness Peat Group  
Mainfreight  
The Warehouse  
Tenon

#### Direct Broking

42 Below  
Cadmus  
Air New Zealand  
New Zealand Oil and Gas  
New Zealand Exchange

#### First NZ Capital

Canwest MediaWorks  
Contact Energy  
Guinness Peat Group  
Mainfreight  
Vertex

#### Forsyth Barr

Contact Energy  
Feltex  
Independent Newspapers Ltd  
POD  
Tourism Holdings

#### Goldman Sachs J B Were

Guinness Peat Group  
Kiwi Income Property  
NGC Holdings  
Port of Tauranga  
Waste Management

#### McDouall Stuart

Austral Pacific Energy  
Dominion Finance  
Freightways  
Infratil  
Telecom

#### UBS

Air New Zealand  
Baycorp Advantage  
Gullivers Travel  
Independent Newspapers Ltd  
Nuplex

### Returns of the NZSX50 shares

Details of the gross returns of all the shares in the NZSX50 for 2004 were:

Share	Gross return (%)
Trustpower	89.6
Michael Hill	79.1
Tower	71.2
Ryman	69.0
Fletcher Building	68.1
NGC Holdings	59.9
Promina	59.7
Freightways	53.7
Tourism Holdings	52.8
Hallenstein Glasson	50.9
Nuplex	47.2
Lion Nathan	44.2
Capital Properties	44.0
Tenon	43.7
Hellaby Holdings	43.1
Waste Management	42.5
AMP	41.5
Steel & Tube	37.3
Port of Tauranga	35.6
F&P Healthcare	35.5
Rubicon	34.2
Pumpkin Patch	33.3
Infratil	31.9
GPG	29.4
Restaurant Brands	29.0
F&P Appliances	28.5
Sky City	27.1
Contact Energy	26.7
Telecom	24.1
Westpac	23.5
Property for Industry	22.1
Auckland Intl Airport	20.7
AMP Office Trust	20.1
ANZ	18.1
APN News Media	14.8
Independent News	13.5
Kiwi Income Property	10.1
Sky Network Television	9.8
Mainfreight	9.3
Baycorp Advantage	6.0
AXA	4.5
Skellmax	4.5
Telstra	3.2
Feltex	0.8
Carter Holt Harvey	-2.4
Ports of Auckland	-6.2
Sanford	-6.6
Cavalier	-7.4
Warehouse	-25.4
Air New Zealand	-28.6
<b>Average Index</b>	<b>28.7</b>
	<b>25.1</b>

### 2004 returns

The returns from the shares of the brokers' 2004 picks were:

We will see if they do any better next year.

Broker	Return	No. of picks above index	No. of shares with negative returns	No. of shares below - 15%	Range (top - bottom)
ABN AMRO	28.9%	3	1	1	91.6%
ABN AMRO Craigs	3.9%	1	2	1	48.0%
ASB Securities	23.0%	2	1	0	58.8%
Direct Broking	62.2%	3	1	1	244.4%
First NZ Capital	34.2%	3	1	1	91.6%
Forsyth Barr	19.7%	3	1	1	80.0%
Goldman Sachs J B Were	18.1%	2	1	1	73.7%
Macquarie Equities	19.2%	3	2	1	72.5%
McDouall Stuart	50.7%	5	0	0	52.4%
UBS	28.7%	4	0	0	21.6%
<b>Average</b>	<b>28.9%</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>83.5%</b>
NZSX50	23.6%	28	6	2	118.2%

Source : NZ Herald, NZX

Note: The returns are calculated from 15 December 2003 to 17 December 2004.