



Lower Volatility

How can companies combat volatility in their share price?

Many in the US, UK and Australia are turning to the loyalty of retail investors.

This trend flies in the face of increasing institutional control of world equities markets but ties in with greater numbers of retail investors entering the market.

In Australia, retail investors have grown from 23 per cent of the population in 1987 to almost 50 per cent today but institutions have increased their control of the market significantly.

In the United States, institutions which held 5 per cent of public company shares in 1945, had moved to 25 per cent by 1965, 60 per cent today and average 70 per cent for the largest 1,000 companies.

In the mid 1970s in the United Kingdom, institutions held 60 per cent of the market compared with 70 per cent in the early 1980s and 80 per cent today.

In Australia, average institutional holdings for larger companies are around 70 per cent, as the accompanying table shows.

Most companies are aware of the benefits of institutional holdings – a higher share price from greater volume of stock turnover, better liquidity and a widespread following by stock-broker analysts.

However, the other side of the coin is greater share price volatility and a tendency by institutions to take a short term view of corporate performance.

Recent US research has shown that institutions turn over their portfolios at the rate of 70 per cent a quarter which is nine times that for individuals at 8 per cent a quarter.

To lessen this volatility, if companies embark on increasing shareholder numbers, there is a cost consideration, with servicing costs estimated at £10 a shareholder in the UK and US\$18 in the US.

However, as the investor relations manager of one large Australian company said, 'We treat all shareholders equally and the extra cost of servicing small shareholders isn't an issue when we look at the stability they provide.'

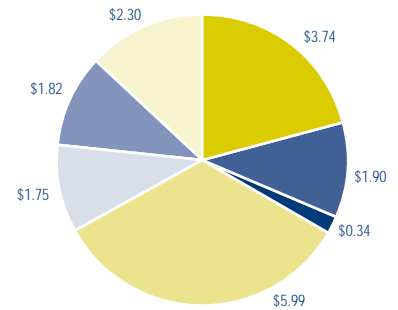
The objective of most companies is not to replace institutions with retail investors but to achieve a greater diversity across their register.

In the US, the pursuit for shareholder loyalty is being pushed along with creation of direct purchase schemes for shareholders, discounts on company products and increased investor marketing.

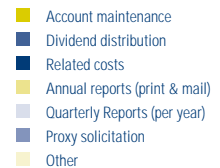
With the pool of Australian retail investors now much larger, Australian companies too are sharpening their efforts to increase investor appeal.

Our research in compiling the institutional/retail table revealed that several larger Australian companies are embarking on campaigns to attract greater numbers of retail investors.

Shareholder Servicing Costs Record Account (Individual Holders) Average Cost



Average Cost per Shareholder \$17.84 (US dollars)



Source:
Shareholder Communications Corporation

Company	% Institutions	% Retail
ANZ Banking Group	65	35
BHP	72	28
Boral	73	27
Coca Cola Amatil	75	25
Coles Myer	60	40
Fosters Brewing Group	90	10
Lend Lease Corporation	75	25
National Australia Bank	70	30
Pacific Dunlop	70	30
Rio Tinto	80	20
Southcorp Holdings	55	45
Telstra	45	55
Wesfarmers	70	30
Woodside Petroleum	85	15
Woolworths	50	50

The Analyst's Couch

Ian Westbrook interviews
Bruce Wookey, Executive Director Research,
Burdett Buckenridge Young.

A number of today's stockmarket darlings were unloved five years ago. The reason for the turnaround? A commitment to good investor relations, according to Bruce Wookey, Executive Director Research, Burdett Buckenridge Young.

Stockbroker analysts can have a significant influence over a company's share price.

This influence can range from positive to negative and include not paying attention to a company at all.

However, according to Burdett Buckenridge Young's head of research, Mr Bruce Wookey, companies need to realise that analysts' opinions are capable of being influenced if they get serious about communication.

Bruce Wookey says there are essentially five components to a public company making the most out of its contact with analysts and the investment community.

The starting point has to be a commitment to believing communication is worthwhile and that benefits to shareholders will flow from it.

This means giving management time to the media and investment community, providing access to management and being pro-active in building relationships with analysts.

Second, Wookey says, a commitment to regular communication establishes a 'no rude shocks' policy so that if the unexpected does happen, then it is within the context of a shared understanding of corporate strategy.

Third, a feedback loop has to be set up so that companies know how the market is reacting to them, their performance and development.

Fourth, a relationship of trust has to be built between analysts and companies, based on regular contact and a shared understanding of why corporate decisions have been made.

And fifth, while continuous disclosure is required by law, companies have to look beyond the bare minimum of disclosure and also explain the background to events.

According to Wookey, companies that have made this commitment have transformed their market ratings, in some cases from being unloved to becoming darlings of the market.

Some examples are Wesfarmers, which has transformed itself from a small company not widely followed to a blue chip, and Leighton, which kept talking to the market through periods of change and restructuring.

Wookey also says a commitment to communication needs to be matched with an understanding of how analysts do their job.

Wookey says a top down approach is the primary starting point for investment analysis, beginning with the industry in which a company operates, looking at its strategy, financial return policies and the integrity of a company and its board.

Within this approach, analysts are also looking for companies which show consistency and a focus on implementing a consistent and rational strategy.

Communicating this focus is good investor relations which has to be 80 per cent forward looking.

There is a distinction here from public relations which is mostly looking in the rear vision mirror and trying to put a gloss on the past.

Wookey says there is a lesson in communication for many companies in today's stockmarket, which is really primarily focused on the top 50 companies.

Companies outside the top 50 and currently out of favour must realise this market attitude is just temporary and that they must persist in keeping the market informed if they are to become stockmarket darlings in the future.

They need to expand their contacts among several brokers, not just relying on one, and gain the attention of opinion leaders in their sector.

As they seek to cultivate the investment community, companies should also be aware of the mistakes that can be made.

They have to get to know analysts individually, giving them one-on-one

attention rather than combining them with competitors and journalists in briefings.

When a company has to report a profit downturn or its sector is out of favour with the market, it has to avoid the temptation to shoot the messenger by turning against an analyst.

'I've had that happen to me and it is quite shortsighted of a company to take that approach,' Wookey said.

It is also a mistake for companies to be belligerent about their share price – if they stick to their knitting and remain committed to communicating, the market will recognise their efforts at some stage.

What the market is looking for is not just information but also a feeling for how a company is to reach its objectives.

Analysts want a balance between integrity and deliverability and once they see that, they have a guide for understanding the dynamics of a company's performance over time.

Book Review

Michael A Rosenbaum,
Selling Your Story to Wall Street:
The Art and Science of Investor Relations
(Probus, Chicago: 1994)

If access to capital is the life support system of public companies, *Selling Your Story to Wall Street* provides the road map to achieving that access.

Rosenbaum argues that relatively few firms market themselves effectively enough to gain that access, even those with legendary consumer marketing prowess.

The underlying premise of Rosenbaum's book is that investor relations is a marketing discipline, made complex because the product is the intangible one of creating confidence in a corporation's potential to make profit for investors.

The key to achieving the successful marketing of this concept to the capital markets is a focus on long term credibility which can't be sold simply by having information available for those who may want it.

Rosenbaum argues that one of the great myths of the investment world is that the numbers speak for themselves.

He says it is a myth for three reasons – because it assumes people are actually paying attention when the numbers are announced, it assumes share price should go up when the reality is often inertia because the numbers are historical and it assumes good numbers imply ongoing consistent performance which even the best managed companies cannot guarantee.

Consequently, the job of investor relations is to help the market understand the corporate story around the numbers which are a proxy for what is actually happening in a business.

To implement this job, Rosenbaum catalogues a range of activities that should be undertaken, from amassing the information to make a persuasive case for investment to targeting investors, media relations and obtaining feedback on how people view the company.

In packaging the message, Rosenbaum says it should answer the eternal question of "why should I invest in this stock"?

Investor targeting has to range over a variety of retail and wholesale investors to avoid institutional gridlock.

Media coverage has to be sought because it is the most potent and elusive of third party endorsements, while recognising that it needs an approach that is half risk avoidance and relationship building and half seeking profile and frequency of coverage.

Rosenbaum gives a powerful reminder to all who talk to the media – everything is on the record.

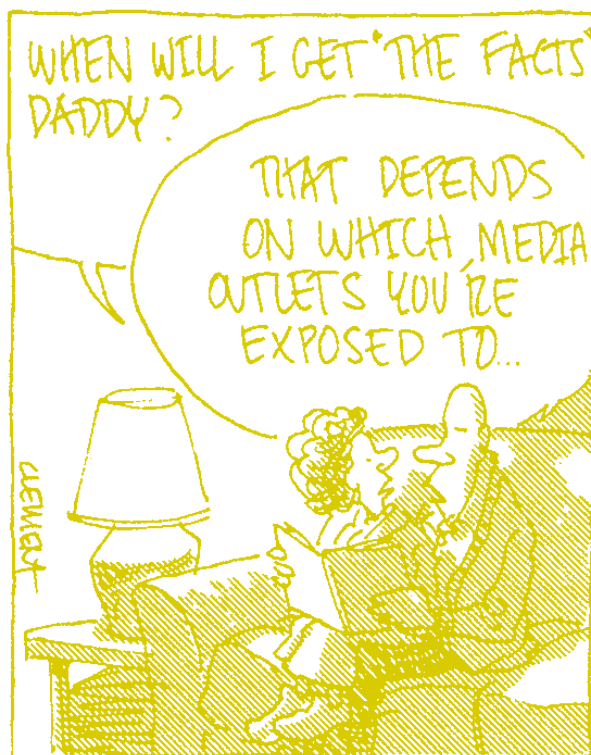
Whether you are selling your story to Wall Street, Bond Street or Collins Street, Rosenbaum has some handy reminders about the components that are needed for marketing credibility and investment appeal.

Client Clips

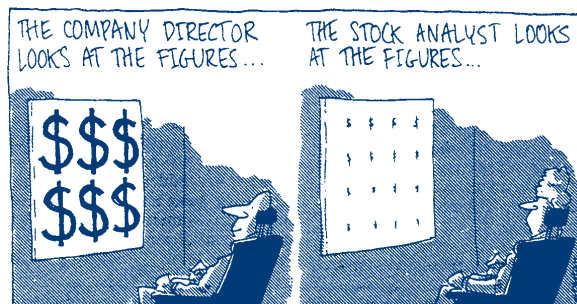
Alkane is to proceed to feasibility with its rare metals project, results from **Australian Growth Properties** have exceeded forecasts, profit in 1997-98 for **Australian Oil & Gas** was a record. **Baulderstone Hornibrook** won the tender for the design and construction of the M5 connection to Sydney Airport, **Capcount Property Trust** has commenced phase II of CityWest Office Park, **Ci Technologies** has maintained outstanding growth from industrial automation software and systems engineering, **Coms21** has won an Australian Design Award for its hand held smart card reader, **COUNT Financial** has extended its business alliance with BankWest into business lending, **CountryWide Retail Trust** ranked first in key industry surveys in 1998, **CPI Group** made a \$72 million graphics acquisition and completed a \$40 million capital raising, **Greens Foods** appointed a new managing director with Nelson Green becoming chairman, **Hancock & Gore** increased profit and dividend in 1998, **Hunter Exploration** has expanded its interests in cobalt, **LeisureWide Property Trust** raised \$102.2 million in an IPO and listed on the ASX, **Lewis Land** has commenced construction of its Harbour Town shopping centre on Queensland's Gold Coast, US based **Maxim Pharmaceuticals** has phase III trials on three continents for its anti-cancer therapy, **Nautilus**, Australia's largest ships supplier, has returned to profit, **Novogen** launched *Trinovin* in 1998 and recorded international sales from *Promensil*, **Plaspak** increased profit significantly in 1997-98, **Reinsurance Australia** opened an Asian office in Hong Kong, **Rural Press** has acquired The Canberra Times

Facts, Quotes

- A report by McKinsey & Co has shown that investors are prepared to pay a 16 per cent premium for shares in companies with sound corporate governance practices
- In 1945 less than 100 million people, mostly in the US or UK, owned 90 per cent of the world's shares - today 1,000 million people own shares and more than half are outside the UK and US
- Research by the London School of Economics has shown that management of people has a greater effect on business performance than strategy, quality, manufacturing technology and R & D put together
- 'The average sentence length in English novels is 20 words - if Australian corporate and government writing was in shorter, simpler and clearer sentences the savings could be billions of dollars a year' Dr Robert Eagleson, plain English consultant to Mallesons Stephen Jacques
- 'Our research is showing that the reputation of a CEO and the corporation are inextricably linked - there is a public and financial obligation for CEOs to become a persona in the corporation they are leading and it does not serve the stockholders interest well for a person to take a reclusive posture after becoming the head of a company' Harold Burson, Burson Marsteller



Artist, Rod Clement



Artist, Rod Clement

Ethical Investing

A survey by Australian Ethical Investment Trust of its investors showed that the environment was their main concern and that the top 10 issues were:

Environmental protection, sustainable land use, forest logging/woodchipping, reforestation, energy/resource use efficiency, militarism and armaments, repressive regimes, fair labour/work practices, uranium mining, racism/ discrimination.



Westbrook *communications*

Westbrook communications specialises in financial public relations and investor relations.

International affiliates include London, New York and Hong Kong

Contact Ian Westbrook, Cherry Dinh, David Reid or Peter Brookes if you would like to discuss our activities further.

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