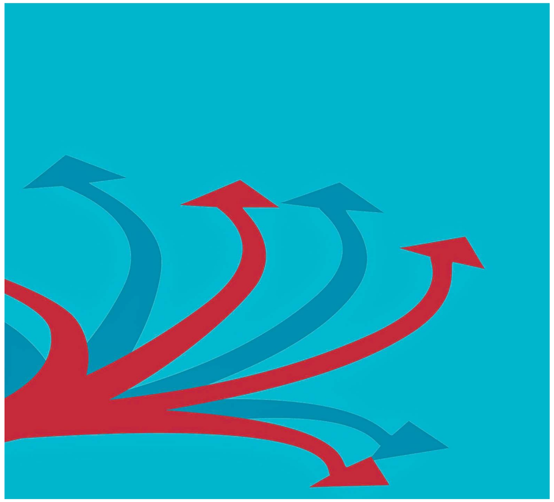
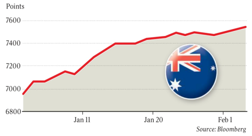
# sharemarket wrong … again?



**High flyer: the ASX 200 is up 8.8% this year**




traded funds, such as the notoriously volatile BetaShares Crypto Innovators ETF, which is 67 per cent year to date. Gasp! That's an ETF, not a stock, and it's rebounding like crazy because even bitcoin is joining the party with a year-to-date lift of 44 per cent.

### Can we keep this up?

How high will the rebound go? Hmmm … well the issue is that the Australian sharemarket has already reached a higher point than most forecasts had pencilled in for the entire calendar year. It's even higher than the most recently upgraded forecasts. In other words, the forecasts can't keep up.

So either, the market has run too hot or the combined brains trust of the world's investment banks and brokers are completely wrong.

There is, unfortunately, no guiding light: market analysts get it wrong all the time. They got it totally wrong last year, when the market was supposed to rise about 10 per cent but instead fell 1 per cent. This year the market was expected to do very little and it has come racing out of the gates. Has everyone got it wrong again in 2023?

What we do know is US Federal Reserve chairman Jerome Powell has rung the bell to say the worst is over. Market traders have been betting on this prospect all year, but his comments this week that inflation is slowing is the confirmation that was needed to give the sharemarket rally conviction.

Powell believes the economy can avoid recession and inflation can slow at the same time. If it all pans out this way, there was no reason for shares to go backwards last year and every reason for shares to advance this year.

If you think back over those market statistics – and consider that the recent buoyancy in the markets is not due to rip roaring economic growth but rather the chance that we may avoid recession – then you have to be cautious of how much more the markets can do from these levels.

Keep in mind too that there have been years in the past when the bulk of the gains in the Australian market were made in the first few weeks of the year – after an early jump we had months of so-called "range trading".

Certainly from here it is going to be considerably harder to find undervalued stocks. The last 12 months were a golden period for value investors. That's why you saw specialist value managers such as Allan Gray and Maple-Brown Abbott top the 2022 tables.

One of the global market's most influential commentators is Mike Wilson, chief equity strategist at Morgan Stanley. He is sceptical about the new year bounce.

"We think the recent price action is more a reflection of the seasonal January effect and short covering after a tough end to December and a brutal year," he says.

The "January effect" relates to a resetting traders carry out most years, but it also involves the notion that everyone comes back from holidays after Christmas feeling a little too optimistic.

Bulls and bears can debate forever, but if you look at the market's serious players it would seem they are taking a view that things might be, dare we say, normal.

The best example might be the Future Fund where CEO Raphael Arndt this week said the fund's setting was now back close to neutral.

The Future Fund has made an annualised return of 9 per cent for a decade against a target of 6.7 per cent. Last year the fund lost money – as did just about everyone. But the fund lost less than most of its peers. It was down 3.7 per cent, while the average balanced super fund was down 4.7 per cent.

Speaking this week on the outlook for the market, fund chairman Peter Costello had this to say: "Our focus remains on protecting the portfolio from a range of scenarios, including sticky inflation leading to prolonged higher rates and the risk of a global recession, while seeking opportunities to generate long-term returns."

That sounds like a perfectly sensible way to go forward from here.

# Your number's up: The $1.3m fine hanging over SMSF directors' heads

JAMES GERRARD

Up to one in five self-managed super fund trustees are looking down the barrel of heavy fines.

They could potentially face a penalty of up to $1.375m from corporate watchdog ASIC over so-called director IDs – a new system of which adoption to date has been much too slow.

In April 2021, the federal government announced the introduction of the director identification number (DIN) system. All company directors were required to register for a unique 15-digit identification number that is managed by the ATO as prescribed under the Corporations Act.

All SMSFs operating under a corporate trustee – the most common structure for the majority of newer funds – are now in the sights of the regulator. So too is any SMSF fund that has taken out a loan to buy property.

An ATO spokesman says: "The community can expect the ATO will take a reasonable approach to directors who have genuinely tried to meet their director ID obligation but have not been able to due to their circumstances.

"However, the deadline for many directors to apply has now passed and we take noncompliance with applying for director IDs seriously.

"We are still urging all directors who haven't already applied for their director ID to do so as soon as possible.

"The application process has not changed and directors can apply online at the ABRS website.

"The ATO has now commenced contacting directors who have not met their obligation to apply for a director ID. In the first instance directors will be provided with guidance on how to apply."

We can assume that if the director, or SMSF corporate trustee, has not reacted to the actions of the ATO, a referral will be made to ASIC, which is responsible for enforcing director ID offences and applying fines for failure to apply for a DIN.

Of note, not all SMSF trustees are required to apply for a DIN. If you have an individual trustee SMSF you are not required to apply for a DIN.

But there is one exception. If your individual trustee SMSF undertakes borrowing activities via a limited recourse borrowing arrangement (LRBA), typically to buy a property asset, you will also need to apply for a DIN as the LRBA requires you to be a director of the bare trustee, which is a Pty Ltd structure. And if you operate via a corporate trustee SMSF, regardless of whether you have an LRBA or not, you are required to apply for a DIN.

Interestingly, SMSF trustees have been more compliant than the broader population of company directors when it comes to obtaining a DIN.

Twenty per cent of all company directors have not applied for a DIN. But when it comes to the 700,000 directors of corporate trustee companies for SMSFs, about 600,000 have their director ID, which means only 14 per cent are yet to apply.

One of the target areas in the new initiative is "phoenixing", whereby a director loads up a company with debts to creditors, unpaid employee entitlements and tax obligations, then abandons the company or transfers the assets to a new company below market value. The old company is placed in administration while the new company trades without regard for the debts and creditors of the earlier business.

Bishop Collins Chartered Accountants' Timothy Ricardo says: "Phoenixing is still a problem today and similar to the 'bottom of the harbour companies' which operated during the 1970s. A company would strip away all assets and profits to directors then transfer management to a patsy and finally physically throw the company register and associated document into Sydney Harbour."

The message is clear: if you are a director of a company, which includes the corporate trustee of an SMSF and bare trustee, you are getting close to your final warning before the hammer comes down and ASIC potentially issues you with a seven-figure fine.

If you are unsure whether you require a DIN, or are unsure how to complete the process, it is advisable to liaise with your accountant or the ATO as soon as possible.

*James Gerrard is principal and director of Sydney planning firm financialadvisor.com.au*

STOCKHEAD

## Conrad's Mako gas field could be a beast

There's plenty to like about the project offshore Indonesia

There is not much that you can see and touch that doesn't have a hydrocarbon fingerprint on it. We're not yet sold on any idea that renewables and storage will end the hydrocarbon industry, mainly because it's not just all about combustion engines. Hydrocarbons remain critical to industries such as fertilisers, plastics, petrochemicals and so on.

But one fact remains – oil and gas fields are depleting, because that's what oil and gas fields do. And little money is being spent on finding and developing more, in part because it's just not cool. Also hard to find is an ASX stock that still fits our bargain barrel mould, and yet is not weighed down by regulation or legislation issues.

But wait – Conrad Asia Energy, which IPOed in October last year at $1.46, hit $1.54 on listing and has settled now at $1.31. Conrad's big-ticket item is a gas discovery it calls Mako, of which it owns 76.5 per cent, in Indonesia's west Natuna sea, with billions worth of existing infrastructure already connected and sending gas to Singapore and Malaysia. It's in shallow water, has a low development price of about $US275m ($390m) and a gas resource potentially worth $US2.4bn. Most importantly, the Indonesian government approves, and there are two more potential projects to tap offshore Aceh.

BARRY FITZGERALD

### Prime position for stock picks

In a tough year for small cap stockpickers, Prime Value Asset Management stood out to get the Australian Equities – Small Cap gong at the Zenith Fund Awards. Richard Ivers and Mike Younger showed a knack for "outperforming consistently in tough market conditions".

You're in good hands here.

Younger says the Prime Value Emerging Opportunities Fund has a historical track record of outperforming 83 per cent of months when the index has fallen.

"Protecting capital comes back to stock selection. Picking resilient companies with strong cash flow, recurring revenues and low debt levels drives performance in good times but also insulates somewhat during bad times."

So who's he backing to get through the start of 2023? Well, promise Ivers and Younger didn't get a spot here for picking News Corp. They believe the possible sale of real estate business Move for $US3bn "could be a significant catalyst for the stock given there is little value for Move reflected in the News stock price".

They're expecting Helloworld to show strong momentum, and think Domain "represents very attractive value on a longer-term basis". It's also a bit vulnerable right now.

And with retail spending showing no sign of slowing, Ivers and Younger are backing Super Retail Group and Accent.

### Copper, tech plays going cheap

Finally, four copper and tech stocks that could be seen as going cheap, with tech still a bit beaten down, and the red metal so far failing to live up to the transition hype. Experts say the world is going to need 700 million tonnes of copper over the next 22 years. That's the equivalent of all the copper ever mined in history.

**Sandfire:** "Our number one pick in the (copper) space," says Adam Dawes at Shaw and Partners. He likes Sandfire's new focus on the MATSA copper complex in Spain, and a 36 per cent drop in its share price from 2018 highs.

**Xero:** "It is the biggest tech business in Australia," Dawes says. "No matter what the economy is doing, Xero will do well because that accounting software needs to be there. In 2021, the stock peaked at $150 but now sits around $80."

**Fineos:** "We expect a good second-quarter cash flow for Fineos," Dawes says. "Their total accessible market is roughly $2bn in the US, which is a big target for these guys."

**ReadyTech:** "(It) recently ceased discussions with Pacific Equity Partners regarding a takeover, allowing it to focus on its own growth," Dawes says: "This has created an attractive buying opportunity – our expectation is that the stock price will rerate to a valuation multiple."