LightHouse
INVESTMENT SERVICES

"The best time to plant a tree was 20 years ago. The second best time is now."

Chinese proverb.

Over the past several years a large part of our clients' portfolios have been invested in international shares and currencies. When making new investments much found its way to pooled funds invested in international equities as well as direct shares in both overseas companies and Australian companies that derive their earnings from overseas. Not only were global shares relatively cheap compared to many local opportunities, but the Australian dollar was also trading at historically high levels, making the purchase of assets denominated in foreign currencies even cheaper.

Over the past six years the US market has risen 78.2% and the Australian dollar has fallen 26.2% against the US dollar. This amounts to compound annual growth of 12.8% in Australian dollar terms (compared to 7.6% pa for the Australian market over the same period). Given this relative out-performance should we now be looking to re-balance portfolios in favour of local investments?

When comparing the investment universes of Australia and the rest of the world, global opportunities continue to look relatively attractive. Whilst the Australian market houses some superb businesses (I'm thinking particularly of CSL, Cochlear and Magellan Financial Group) it does represent just 2% of the global market capitalisation and is heavily weighted to the banking and resource sectors. If you want exposure to global brands you really do need to venture offshore.

Apple, the world's largest company, is a good example. The company produces a hand full of products that most of us rely on every day. This gives it a remarkable competitive moat. In May last year the market valued Apple at US$472 billion. The company held net-cash at the time of US$150 billion, valuing the actual business at US$322 billion. Over the previous year it had earned US$53.4 billion in after-tax profit and was effectively on sale for 6 times its after-tax earnings. (Compare this to local IT company Computershare which, if you throw in its net-debt, trades at around 24 times after-tax earnings. Computershare is a business I like and Apple's share price has risen more than 50% since then but, even at these prices, I still know which I'd prefer to own.) Virtually all of our clients have a very healthy exposure to Apple, either through owning direct shares in the company or through investments in the pooled Magellan global funds, in which it is currently the largest holding.

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Lighthouse Investment Services Pty Ltd as the trustee for the Lighthouse Unit Trust (ABN 14 874 080 673) and
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