Market not without risk

SPEAKING FRENCH

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The share market is awash with all sorts of sayings, some useful, some not so much.

One useful saying is "you make your profit when you buy", meaning that it's hard to make money if you pay too much in the first place. Another longer one is "do the deal while you can and you will be a happy man, those who try to finesse always wind-up in a mess". The moral here is that if the price of your investment is near enough to the point where you think it should be bought or sold, then hanging on for a few cents extra will likely see the opportunity pass by.

Both of these sayings are closely related to the concept of value. Knowing the value of something provides a very good indication as to when to buy and sell.

For many investments, calculating value is relatively straightforward, using Discounted Cash Flow (DCF) techniques for example. Other measures exist but the DCF process involves estimating future cashflows and applying adjustments to reflect risk and external economic conditions.

Assuming that the cashflow estimates are in the ballpark, DCF is a reliable tool.

Matters get trickier when an investment has negative or no cash flow.

Obviously, such investments would be worth nothing unless they were expected to become cashflow positive in the future. Traditionally, such crystal ball gazing was the domain of smaller mining companies, where in-ground estimates of Ore Grades were used to calculate likely yields and then a value for the sale of Ore. The last 20 years or so has, however, seen the rise of all sorts of new endeavours where investment valuation depends on factors with no obvious parallel. Amazon was one of the first, Tesla is another and recently Afterpay. Many are IT-based but not all, and because they are new and without hard assets, it is very easy to dismiss these businesses as flashes in the pan.

And with no past, no parallels and no profits, savvy investors are right to be sceptical. On the other hand, market-based valuations of $US1.65 trillion, $US783 billion and $A44 billion respectively, suggest somebody thinks they are worth something, and some of those somebodies are very sophisticated investors.

Launched in the mid-1990s, Amazon has withstood all sorts of criticism such that it is now reporting profits. Tesla, the electric car manufacturer that was started in 2003, now seems to be getting close to achieving ongoing profitability. It's still early days for Afterpay, but the story is getting clearer.

Interestingly, Amazon's profitability has very little to do with selling goods and everything to do with its massive data centres that support the 'IT cloud'.

In Tesla's case, people seem to have assumed that the position of traditional auto manufacturers was unassailable, and underestimated the burden of legacy systems and thinking. In that, it is instructive to compare Tesla with automotive icon VW, which tried to cheat its way to commercial success and instead suffered billions in fines and dreadful reputational damage, not to mention charges of fraud against executives. Buy-now-pay-later outfits like Afterpay are making way at a rate of knots. Naysayers abound but compare paying 18 per cent credit card interest to an arrangement where the retailer pays the fees and the client nothing, as long as payments are made in time. Each of these cases identifies and an addressable market. How big it is and how successfully the company will be able to penetrate it is the question.

Clearly, there is money to be made in investing in these 'new-world' type stocks but choosing the right one is by no means a 'lay-down'. Consider for example the likes of Yahoo and many, many others that lost their identities through merging, or went broke outright.

Share market success is not guaranteed.

At the same time, opportunities are evident in more traditional investments. Aurizon, for example, is Australia's largest rail freight operator. Its price has suffered because of China's attitude to Australian imports and general sentiment against coal. These negative vibes are wrong on two counts; first, China has to get its coal from somewhere, and if that is not Australia then customers currently buying from "somewhere" are going to find themselves buying from Australia. Second, there is no doubt that renewables are a threat to thermal coal, but they cannot replace metallurgical coal. And developing countries that use our thermal coal are not going to turn off the tap anytime soon.

All up the market is more interesting than it has been for years. It is not without risks, I have already discussed the uncertainties of a rampant increase in money supply, and the outcome of the Covid-19 adventure is unknown. But a polarisation of views seems to be combining with emotional spin to yield some worthwhile opportunities for those that take the trouble to do their homework.

The author holds some of the investments mentioned above and the article is general in nature.

Readers are advised to seek professional advice before acting on the above comments.

The dos and don'ts when it comes to wine testing

WINE WITH FOOD TIPS

WINEBILL

Last Saturday, the CEO of The Wine Valet, Alain Guillemain hosted a private wine tasting. And thankfully, I was invited to taste 28 wines in three hours.

And this will explain why only a tiny amount is poured at a wine tasting.

A wine tasting should always be fun, enjoyable, interesting and educational - no matter what level you are at or the others in the tasting group are at. Wine events combine fun with the educational. The wines are tasted in a group situation, which opens up discussion as the road to learning from others.

So many influences affect tasting before we even open the bottle. The starting time of the tasting is a major consideration. Most experts would advise doing the tasting at lunchtime, before having your food. The Wine Valet tasting started at 9.30am just when my body is trained to focus on my second after breakfast coffee! Although having said that, most wine tastings are held in the evenings.

Of all the senses we use to analyse wine, smell is the most important. The human body has more sensors to identify smell than tastebuds in the mouth. Working on a rough proportion, 'the nose knows' and will give you 60-80 per cent of the analysis of the wine. The rest is from sight and taste.

How to taste wine:

First of all have a look at the wine, in particular the clarity of the wine and then the colour. Pour the right amount into a suitable wine glass. Have a white background - for example, a white piece of paper, napkin or a white tablecloth.

What colour is it? White, blush or red? The golden rule in tasting wine is taste the white wines first. To bring even more formation to the tasting, the whites should be lined up depending on their depth of colour. From clear, pale yellow, straw-like, light-honey, golden, amber and then even brownish.

Once we have observed and agreed on the colour of the wine, we start our tasting notes. By taking notes, we get closer in association to each wine. We then start this amazing journey that shows not all wines are the same. Remember, wine tasting and wine drinking are different skillsets. Tasting wine is more for education to help you understand the wine and let you know if you like the wine or not. And if so, why? And if not, why not? In my next column we'll discuss how to taste wine.