

MEDIA RELEASE

Small Ords to lose its most profitable companies

Small cap index losing stocks with above average P/Es in exchange for companies with no 'E'

Sydney, 21 September 2010: The challenge of picking the best performing small cap stocks has become increasingly difficult over the past decade, and as the components of the Small Ords Index change it will become even harder for investors and fund managers to outperform this benchmark, according to Wilson HTM Investment Group.

The S&P/ASX Small Ordinaries index consists of companies in the S&P/ASX 300, excluding the largest 100 companies. It provides a benchmark for small cap investments.

“The Small Ordinaries Index has a number of idiosyncrasies not found in other indices,” Wilson HTM asset allocation strategist Damien Klassen said. “The index operates in a ‘revolving door’ manner, so it’s best performing companies graduate to the ASX 100 and are in turn replaced with the worst performing stocks from the ASX 100.”

These idiosyncrasies in the Small Ords have been exaggerated over the past decade as a result of the Australian resources boom. The rise of the mining and resources sector has led to a significant shift in the weighting and make-up of the index. Where ten years ago industrials were five times the weight of resources, soon they will almost be equal.

The impact of these trends has been clearly illustrated over this quarter as the Small Ordinaries lost some of its most profitable and stable stocks Resmed (RMD), Ramsay Health (RHC), Ten Network (TEN) to the ASX 100. In exchange, the Index gained outlier mining stocks with no earning such as Energy Resources (first half profits down 82%), and eight other resource companies that are currently loss making.

Over the coming months, Wilson HTM also expects the Small Ordinaries to lose Healthscope (HSP) to takeover, and to gain Adelaide Brighton (ABC).

“For investors and managers using the Small Ordinaries Index as a benchmark, as the composition changes – both short term stock positions and long term make-up – picking winners and beating the index becomes increasingly difficult,” Mr Klassen said.

“The bottom line is that given the sheer number of loss making companies (primarily resources) that will come on to the Small Ords over the next few years, effective stock selection in the small cap sector will become more important than ever.”

-ends more-

For further information or for an interview, please contact:

Paul Cheal
Account Director
BlueChip Communication
02 9018 8613 / 0404 349 348

About Wilson HTM

Wilson HTM Investment Group is an ASX listed investment house dating from 1895 with \$10.1 billion in funds under management. The Company’s investment philosophy is client outperformance, or alpha. The company has a strategic relationship with Deutsche Bank, which has a 19.9% shareholding, and employs over 400 staff across offices in Sydney, Brisbane, Melbourne and a number of regional centres.

-ends-