

# The Australian

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## Taking a good, hard look at LICs

- by: Andrew Main, Wealth editor
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**INVESTMENT trends are as fickle as fashion trends, and almost as likely to leave you exposed to chill winds in awkward places at unsuitable moments. This week we've sent James Brooks off conservatively clad to see how licensed investment companies are doing as an asset class and he's come back enthused.**

Yes, they have a terrible tendency to trade below their net tangible asset value but that's not new. That's like saying high heels give their wearers sore feet.

What wise investors realise is that NTA discount is just another factor to consider and it's already baked into the bid-ask prices of the listed entities.

And as LIC fan Geoff Wilson points out, they move around and it's quite possible to buy into an LIC whose discount can be made to disappear, by good management or good luck.

His pet hate about managed funds is that because most are open ended, cash floods into them in good times, forcing managers to pay up for assets. And in bad times the cash floods out again leaving the manager with no choice but to sell assets that he or she knows are underpriced.

He even reckons that the advent of FoFA, the Future of Financial Advice, legislation and its abolition of trailing commissions will result in a more level playing field between managed funds (where the commissions are paid) and LICs.

But while there's been a long- running arm wrestle between the operators of managed funds and LICs, Explorer Brooks looks more likely to set off a second front between the providers of exchange-traded funds, who have 57 offerings now listed, and the managers of 63 LICs worth about \$15.8 billion, or just over three times the ETF total.

There are arguments both ways and they're not both apples, by way of comparison. ETFs are marketed as a way to get low-cost exposure to very specific sectors. LICs charge higher fees because they are designed to outperform, whereas ETFs are designed to replicate sectors.

A point that potential investors should consider is that in LICs, the oldies still tend to be the goodies. The original report from Patersons used on Page 6 was from August. We've amended the prices and although the market's been very volatile since then, five of the biggest (and oldest) six have seen their prices rise. The biggest, AFIC, has lost ground slightly but that's good news for potential buyers.

This edition of Wednesday Wealth is the last for the year. We at Wealth wish our readers a happy Christmas and a suitably prosperous new year. We'll be back in February with a new format that will offer familiar features and a few new ones.

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