SUNDAY BUSINESS

with ANTHONY KEANE

The 10 top stock picks for 2024

Health care, technology and fast cars feature prominently in some of Australia's top investment specialists' stock tips for 2024. Ten fund managers have shared their top picks in a year that is expected to be challenging for markets overall after a strong end to 2023.

All of the fund managers are generous too, working pro bono for listed investment companies Future Generation Australia and Future Generation Global, which combine investment and social returns.

The managers waive the usual fees so 1 per cent of assets are donated to charity – so far delivering about $76m to non-profit groups supporting youth at risk and youth mental health.

Here are their top tips, spanning Australian and international shares, and why they believe their chosen stocks are a good long-term buy.

CSL

Australia's largest health-related stock has rewarded investors richly for decades, and Blake Henricks from Firetrail Investments is positive about the company.

"CSL was a Covid loser as collection costs rose," said Mr Henricks, portfolio manager of the Firetrail Australian High Conviction Fund.

"But we have seen CSL's margin turn around as plasma collection volumes have improved and costs are dropping," he said.

"When we compare CSL to other defensive options it becomes even more attractive to us, as it is trading cheaper to peers and relative to its own long-term average, and consensus has earnings growth in the mid-teens."

MICROSOFT

US tech giant Microsoft is almost 50 years old and Magellan Asset Management's CFA portfolio manager Nikki Thomas said much had changed in that time at the company and in its markets.

"But what hasn't changed is its incumbency with enterprises and its ability to keep finding the future revenue growth opportunities and lead change," she said.

"The shift to the cloud has been fuelling growth for Microsoft Azure in particular, and we see this continuing for many more years at a compound double-digit rate of growth."

Ms Thomas said Microsoft's Office 365 had a highly recurring subscription revenue stream, and AI delivered an opportunity to unlock greater productivity.

"There are other opportunities for Microsoft too – from gaming to chips and it partners with other companies to expand opportunities," she said.

"Its balance sheet is robust and rich cash flow generation gives it firepower to invest strategically and support strong shareholder returns.

"We also hold CEO Satya Nadella, and his leadership team, in high regard.

"Despite its immense size, we continue to see strong growth at Microsoft for many, many years."

FERRARI

Want an investment that roars? Like Microsoft, Ferrari is listed on the New York Stock Exchange and its shares can be bought by anyone wanting a piece of the prancing horse.

Fund manager Martin Currie's head of global long term unconstrained equities, Zehrid Osmani, said the company had strong industry positioning in the high-end car market.

It typically had a 30-50 per cent price premium to peer sports car brands, Mr Osmani said.

"Long waiting lists for products makes the company able to weather short-term cyclical headwinds, and be able to continue to optimise its production capacity in downturns, making its sales more predictable over the long term," he said.

"The recent launch of an SUV has already ran into waiting lists of well over one year, and is helping the company address an important car market segment.

"Ferrari has more predictable sales than the market expects, and therefore can be seen as a consumer staples, albeit if only a staples of the high-net-worth individual."

RESMED

This Aussie company designs and makes CPAP systems that treat sleep apnoea, a debilitating illness affecting hundreds of millions of people worldwide.

Lanyon Asset Management portfolio manager Nick Markiewicz said ResMed shares had been sold off significantly in recent months amid fears around the potential impact of new obesity drugs on demand for CPAP systems.

"While it is possible these drugs will have a marginal impact on ResMed over time, we think this threat is small, and more than reflected in the share price," Mr Markiewicz said.

"We think an opportunity to own ResMed exists partly on account of the company's dual-listing, with the majority of shares traded in the US, where ResMed is potentially less familiar to investors and the quality of the business is under appreciated," he said.

"ResMed has a dominant position in an under-penetrated market with a long runway for growth for many years to come. We think the recent sell-off has provided a rare opportunity to buy a stake in one of the best businesses in Australia at its cheapest valuation level in seven years."

WISETECH GLOBAL

This company combines two hot sectors – technology and logistics – and Sage Capital portfolio manager Kelli Meagher said its recent heavy falls reflected market attention on weaker freight volumes.

"We believe this is a short-term cyclical headwind which creates a great opportunity to invest in a company with a near monopoly in seaborne logistics among top global freight forwarders," Ms Meagher said.

"It's no coincidence the most profitable freight forwarders all use Wisetech's Cargowise software," she said.

WiseTech's competitive advantage in global logistics should enable it to deliver good growth for many years, Ms Meagher said.

"Over more than a decade Wisetech has invested to bring online almost all major markets in single software solution, giving its scale local competitors cannot match," she said.

"A new area where this really shines is in customs, a market potentially bigger than core freight forwarding.

"Wisetech is years ahead of the competition here."

JOHNS LYNG

QVG Capital portfolio manager Chris Prunty said he loved the management and corporate culture of this company.

"Johns Lyng is an insurance builder, disaster recovery expert and strata manager," he said.

"These are not exactly sexy industries, but they do benefit from being fragmented, non-cyclical and cash generative.

"The founder Scott Dider owns almost 18 per cent of the company and three other directors are also top 20 shareholders."

Mr Prunty said the "secret sauce" behind Johns Lyng was its ability to identify highly motivated, high-energy managers and give them a high degree of autonomy.

"We think the relatively low

We live in the shadow of super's valley of death ...

Anthony Keane

Superannuation is Australians' best way to save money for retirement and save tax at the same time, but it contains traps that can kill part of your finances.

Take, for example, what could be described as super's valley of death. It spans about $400,000 and is the danger zone where having your super balance hit a certain level becomes financially pointless.

The valley opens at about $800,000 for a couple, as it reduces age pension payments more than the extra money's investment returns are likely to deliver.

Financial strategist Theo Marinis calls it "super's dirty little secret".

"The sad reality is there is very little benefit in retiring with a balance between $800,000 and $1.2m," he says.

Many people may think they will never have a nest egg that big, but we are talking about couples when looking at these numbers, and as compulsory superannuation heads towards 12 per cent of wages it will become more common to see $400,000 balances.

Centrelink's age pension assets test starts reducing payments when a homeowner couple has $451,500 of assets, excluding their family home.

That same couple can have assets totalling $1.03m before age pension payments – and associated concessions – cut out completely.

Marinis says a couple with $1.5m will not significantly benefit from the pension system until their money runs down to about $800,000. A combined nest egg above $2m means they are unlikely to ever require a pension.

Association of Superannuation Funds of Australia figures in mid-2021 showed average super balances for 60 to 64-year-olds were $403,000 for men and $318,000 for women.

A majority of people retire receiving age pension payments, often a part pension these days thanks to compulsory super existing since the early 1990s.

Despite the wackiness of the pension and super rules making things tricky for people with just over $800,000, there are plenty of strategies that can help savers and seniors navigate the system successfully.

Strategy No.1 is to build a bigger balance if you have enough years ahead of retirement. Salary sacrifice and other tax-deductible contributions, after-tax contributions, co-contributions, spouse contributions and downsizer contributions are among the incentives to help people build big nest eggs faster.

People can also turn some of their nest eggs into exempt money by injecting money into their own homes via renovations or buying a more expensive property, but there are hefty buying and selling costs so everything needs to be weighed up.

A legitimate strategy could be to feed your travel bug early in retirement, as money spent on those memorable life experiences will no longer be assessed by Centrelink.

Also, where one member of an older couple is significantly younger than the other and below the pension age of 67, extra money can be put into the younger partner's super fund where it won't be counted by Centrelink until they reach 67.

The complexity of our system means good financial planners are worth their weight in gold, as they can often save people tens of thousands of dollars simply by recommending tax-effective superannuation strategies.

Super's valley of death lurks on the horizon for many, but the way that Australians approach and navigate it can result in only a small amount of money being killed off by crazy super, tax and pension rules.

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