

PRICE AND EARNINGS.... A LESSON FROM TELSTRA

Today's headline news from Australia's financial world is something that affects a huge number of Australians because for large numbers of them the only share that they have ever owned, and still own, is Telstra.

Yesterday the value of Telstra dropped by about 12% to its lowest price for a couple of years. Those investors who bought at the low point yesterday are now sitting on a blue chip share that is giving them a dividend yield of 7.7% which converts to a remarkably generous double digit return on their money when franking credits are added.

I flicked through my tax data base this morning to do a very rough sampling of Telstra ownership. The result was not a surprise to me and although I do not claim that this represents a true cross section of the Australian population it is a clear indication of a distinct trend. My survey indicated that just over 2% of my data base clients hold shares in one company only and well over 70% of those clients have Telstra as that share.

While the staggering drop in the Australian share market during 2008 has created many headlines and as a result of the superannuation legislation in Australia the vast majority of the population are affected in some way there are still very large numbers who are scarcely affected by what the sharemarket or individual shares are doing because they only own Telstra.

Quite clearly all of yesterday's buyers are not investors...some are speculators who will sell at a handsome profit when the shares pick up yesterday's losses in a future surge in the company's share price.

The point needs to be made, loud and clear, to everyone who has investments in the Australian share market that they have not lost ANYTHING unless they actually sell and crystallise their losses. The second point that needs to be made, equally loud and equally clear, is that by far the most important aspect of ANY investment whether in shares or property is the INCOME YIELD that is being derived now closely followed by the GROWTH YIELD .

In calculating yield the critical calculation demands that tax is accounted for.