

# Mediaportal Report

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► **Time to massage index positions**

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Standard & Poor's has dropped Dominion Mining from the S&P ASX 200 Index, the second worst-performing stock over the past 12 months. Minara Resources was another stock dropped from the S&P, these stock will now suffer some selling as fund managers are no longer required to hold them. Margaret Hartmann, index specialist at Merrill Lynch said trading in stocks that jump in and out of the index can generate significant returns. Myer has lost 17 percent of its value but remains in the top 100 stocks, Kathmandu is lower by 3 percent, yet it cannot make the top 200. Instead, it has been included in the top 300 with Galaxy Resources, Sandfire Resources, Super Cheap Auto, Navitas and McPherson's. Asset consultant Mercer, notes that inclusion into the top 200 and 300 means around \$250 billion of funds is mandated against those index. Robin Bowerman, principal and head of retail at Vanguard Investment said there is no instant reaction, Vanguard's aim is to optimise the portfolio. Myer, Mineral Resources and Perseus Mining have been added to the top 200, while Viterra, Dominion Mining and Minara Resources had been excluded. Boart Longyear has been added to the top 100, while Eldorado Gold Corporation and Singtel have been dropped. All changes take place on March 19.

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▶ **Grylls at port forum**

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By: Neysha Reeves

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ESPERANCE residents gained an insight into the State Government's vision for the region at the Over the Horizon Forum on Thursday. A large crowd of people turned out to hear an update of future developments and business progress.

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**PRESS CUTTING**

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# Time to massage index positions

**Philip Baker and Justin Bailey**

Dominion Mining, the second-worst-performing stock over the past 12 months, has been dropped from the S&P ASX 200 Index by provider Standard & Poor's.

Stocks that are dropped can suffer from a round of selling as fund managers are no longer required to hold them in their portfolio. Traders often try to second-guess which stocks are set to be excluded and short sell them in anticipation of buying them back when the announcement is made.

But it doesn't always work. Minara Resources was another stock excluded from the major index when S&P revealed its quarterly rebalancing on Friday, but shares in the nickel miner have risen about 130 per cent over the past 12 months. In contrast Dominion shares are down 45 per cent.

S&P's criteria for including or excluding companies has long puzzled some observers, but is largely based on the amount of stock available to be traded, the size of the company, and the average number of trades in the stock daily.

According to Merrill Lynch index specialist Margaret Hartmann, trading around stocks that are included or excluded can generate significant returns.

"The announcement effect for inclusions tends to last two to three

days, with returns averaging 4 per cent in excess of market in the two to three days post-announcement," said Ms Hartmann.

She said that for stocks deleted from the S&P ASX 200 Index, performance tended to be a mixed bag, with no reliable impact, but they are generally weak in the two weeks after removal.

"This weakness often presents a good buying opportunity for retail clients, however, as average outperformance in the fortnight post-removal is 18 per cent."

Myer has fallen 17 per cent since

300 is important because, according to asset consultant Mercer, about \$250 billion of funds is mandated against those indices, meaning if fund managers don't hold stocks that are in the index, it is more of a bet for them.

Just over \$80 billion is measured against the top 200, while around \$170 billion is mandated to the top 300 stocks index.

Key participants in this process are the index funds, which replicate as closely as possible the index's components.

Vanguard Investments' principal

Viterra have been removed.

Joining Myer in the top 100 is Boart Longyear while Eldorado Gold Corporation and Singtel are out. All changes take effect from the close of trading on March 19.

Ms Hartmann said there were still opportunities to make money as many stocks entering the S&P/ASX 300 Index had liquidity issues.

The typical response to promotion to the top 100 is for stocks to underperform by more than 5 per cent over the next two weeks. This seems counter-intuitive, however stocks which are promoted to the top 100 are by default removed from the small ords and while small-cap fund managers are by no means index funds, and typically have 12 to 18 months to exit, the reality is they are active funds, not index funds, so unless they were planning on increasing exposure they have to sell stock just to get back to the position they had in the first place," she said.

"This is nothing but a bit of indigestion as people massage their positions back to the risk they wanted to take on the stock, but it does result in underperformance."



**There's no sort of instant reaction. Our job is to track the index. The aim is to match the index performance.**

Robin Bowerman, Vanguard Investments' principal and head of retail

it was listed in early November, but it has been included in the top 100 stocks. Kathmandu, another high-profile retail float from last year, is down 3 per cent since its listing, but failed to make the top 200. Instead, it has been included in the S&P ASX 300 Index, along with Galaxy Resources, Sandfire Resources, Super Cheap Auto, Navitas and McPherson's.

Entry into the S&P ASX 200 and

and head of retail, Robin Bowerman, said his firm was flexible when deciding to rebalance and optimise the portfolio.

"There's no sort of instant reaction. Our job is to track the index. The aim is to match the index performance," Mr Bowerman said.

Mineral Resources, Myer and Perseus Mining have been added to the top 200, while Dominion Mining, Minara Resources and

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# Grylls at port forum

By Neysha Reeves

ESPERANCE residents gained an insight into the State Government's vision for the region at the Over the Horizon Forum on Thursday.

A large crowd of people turned out to hear an update of future developments and business progress.

Attendees included keynote speaker and Minister for Regional Development Brendon Grylls, Member for Roe Graham Jacobs, Member for Mining and Pastoral Wendy Duncan and Buck Rogers from the Shire of Esperance. Mr Grylls discussed the State Government's vision for the region and the part it would play in the development of the State.

He acknowledged Esperance had been through a difficult year.

"The Esperance community handled the lead issue very well and made sure their concerns were heard," he said. "As a result the Esperance Clean-up Recovery Program was formed and is now underway with very positive responses."

Mr Grylls also commended the region for its handling of the sudden closure of the Ravensthorpe Nickel Project by BHP Billiton. "Over the 12 months since the mine closed there have been a number of problems solved," he said. "It is also positive to see a number of new projects such as Galaxy and the new Ravensthorpe Nickel owners coming into the area."

Mr Grylls said people tended to look to the Government for leadership. "Leadership starts with the community and the Government always follows," he said.

"With Royalties for Regions there is now a unique scope to drive new opportunities, innovations and outcomes to the region and we need to take advantage of what the region has to offer and build on that."

Delegates also heard speakers from the Shire of Esperance, Esperance Ports Sea and Land, the Goldfields-Esperance Development Commission, the Chamber of Minerals and Energy and Tourism WA.