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Crisis no excuse: fund managers

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KEY POINTS

- Blaming the crisis for a downgrade is equivalent to 'the dog ate my homework', says survey.
- It also slams companies sneaking bad news out late in the day.

Fund managers claim that some companies have used the global financial crisis as an excuse to hide underlying problems in this year's profit reporting season.

A survey of 10 fund managers, who collectively manage $250 billion, also found that failing to schedule a conference call, sneaking bad news out late in the day or on a Friday, and selling only the positives created a sense that a company had "its head in the sand".

Fowlstone Communications principal Geoff Fowlstone, who conducted the survey, said: "Blaming the financial crisis for an earnings downgrade is the modern-day equivalent of the dog ate my homework for companies announcing profit downgrades in the current economic cycle.

"No one's going to send you a bouquet for issuing an earnings downgrade, but you'll make the pain much worse if you appear to be in denial or refuse to provide enough detail for the market to be able to analyse the impact."

Investor relations adviser FIRST Advisors agreed that "saying nothing" about the company's outlook was a big concern. It recently surveyed 200 top companies and found just under 20 per cent omitted or declined to comment on the outlook or deferred comment until the annual general meeting. Only 9 per cent of companies surveyed reported a strict earning guidance, compared with 60 per cent in the United States.

FIRST Advisors' Victoria Geddes said: "Paradoxically, when times are tougher, when there is heightened uncertainty and pervading gloom, when investors are desperate for any insight or indicator about what the future holds, the instinctive response for many boards and senior executives is to say nothing."

The latest Global Proxy-Melbourne Institute shareholder index, released yesterday, found investors were generally confident of higher returns and less volatility, and buying intentions had significantly improved.

Guay Lim of the Melbourne Institute said: "As was foreshadowed by the May index, retail shareholder confidence in the Australian stockmarket is returning probably a little more strongly than we had expected, but there's still an element of caution around.

"What we can now see though, is entrenched shareholder opposition to remuneration packages and policies," Professor Lim said.

The survey found 80 per cent of shareholders thought executive pay packages were excessive relative to the work they performed.

Company reporting season has so far surpassed expectations, although investors point out much of the pain was masked by pessimistic forecasts issued in the darkest stages of the crisis.

The financial crisis had clearly hit the earnings of many companies, but others were trying to hide behind it, fund managers complained.

The failure of management to take responsibility for the downgrade, and management using language that blamed unforeseen circumstances, irritated fund managers most.

One fund manager said "putting their cards on the table and showing the market the things that they can and can't control and what they are doing about it" was the key to restoring confidence after bad news.

Another said it was frustrating when management just sold the positives. "As long-term investors, we want an accurate assessment of opportunities and risks, but typically, companies don't talk about risks."

Another irritation was when companies issued one downgrade and claimed this would be the only one, but then issued a series of downgrades. "Three warnings in three months" would be a reason to sell, one manager said.

BNP Paribas, Challenger Financial, Deutsche Asset Management, Eley Griffiths, GAM, UBS, Macquarie Funds Management, MFS, Platypus Asset Management, Quest Asset Partners and Third Link Investment Managers took part in the survey.

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