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ARTICLE REVIEW

This article deals with an important topic in finance. The article is related to increase in earnings for Australian companies and how this affects the sentiments of investors, which in turn affect the value of the stock index.

The major finding of this article is that ASX 200 index, that is an index made up of the 200 of the biggest companies in Australia by market capitalization has increased in value.

The major sectors which have experienced increased in earnings are the resource sector and the banking sector. Specifically amongst the resource sector Rio Tinto and BHP Billiton, both of which have posted an earnings increase of forty percent. When the underlying earnings of the companies increase this has a positive effect from a financial perspective. Investors are more willing to invest in these companies and hence this increases the stock value of these companies.

Rio Tinto posted an increase of ten percent in the underlying profit whereas BHP Billiton increased half year profit by eighty three percent.

Overall as many analysts have noted that Australian stocks have been performing remarkably well. There has been a high dividend payout ratio by companies like Telstra and Commonwealth Bank. This is important from a financial perspective because a high dividend payout ratio indicates that the company has sufficient earnings after tax to distribute in the form of dividends. This is perceived as a positive signal by investors and they will be keen to buy such stocks.

The paper concludes with an important finding that given the optimistic mood of institutional investors, who are keen to invest in Australian stocks.

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This is important from a financial perspective because institutional investors buy stocks in bulk and hence can increase the value of the stock market manifolds. When the value of the stock index increases this is seen as a positive signal by other investors to invest in that market.

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