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HD	**Neal is rapidly running out of cover**
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QBE chief executive John Neal QBE boss John Neal knows yesterday was it in terms of self-inflicted profit downgrades, but his credibility is not yet shot after averaging a downgrade every 4.8 months in his nearly two years at the **company**.

No one thinks he is trying to be anything but conservative or he is trying to hide things from the market, but in this case he was caught being too sure the problems were fixed when plainly they were not.

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“I don’t think we can afford any more downgrades,” he confided, after handing down his fifth in 23 months.

At the same time, he said the market was not appreciating the fact his key books in Australia, the US and Europe had turned the corner. But the trouble is, with his track record, the market will take some time to take anything the **company** says too seriously.

He was hit with a perfect storm when he took the job back in 2012, and the long hoped for macro-economic boost via higher interest rates is still at least a year off if US Federal Reserve chairwoman Janet Yellen is right in her forecasts.

So Neal is confronted with chronically weak economies, low bond yields and the wrong side of the insurance cycle.

It will turn, but having confided revenue as measured by gross written premiums at $8.5 **billion** will fall short of market and his own estimates, there will be downgrades this year and next. Since taking the helm at the one-time market darling, Neal has presided over a massive 58 per cent underperformance in his stock price.

Just what has gone wrong is a combination of bad luck, catastrophe claims such as the European floods and what would seem to be basic management error.

This time Latin America is in the firing line and in particular Argentinian workers’ compensation claims, which will cost $170 **million**.

Stuff happens, but it’s the rapidity of the downgrades that is starting to raise doubts, when you consider that just last December the **company** reviewed its books and reportedly covered all the problem spots.

That was the last downgrade before today.

Argentinian inflation and changes to the workers’ compensation laws are not exactly out of the ordinary.

Neal has made management changes, with Asian boss David Fried to assume responsibility for Latin America, which means, hopefully, he has someone who can keep a closer eye on the business.

In insurance terms, a combined operating ratio of 100 is break even and the market was expecting QBE to come in at 93, which means a profit margin of more than 7 per cent. Now the operating ratio will be closer to 97 and the margin at 7 per cent against consensus at 10 per cent.

Net profit for the half will be closer to $US390m ($415m) against the $US520m the market was looking for.

The rugby-loving Neal keeps saying he hopes this will be the last downgrade, and he is right to hope because on the next one like this he will be gone.

At some point, enough will be enough.

Come October, when the US Fed stops injecting liquidity into the US economy, volatility will increase and by the middle of next year, when US rates are tipped to rise, then at least the macro picture will be better for Neal.

He certainly needs something to fall his way.

Market threat COMPLACENCY is the biggest threat to the global market, according to Mike Trudel, the strategist at BlackRock's $US100 **billion** Global Allocation fund.

The fund is managed from a textbook allocation of 60 per cent global stocks and 40 per cent fixed income, with roughly 60 per cent of each asset class invested in the US and the rest offshore.

Right now the fund is underweight the US and overweight Japan and Europe, in part because the US Fed is ahead of both markets in terms of stepping out of the market and closer to raising rates again.

Come October, when the Fed tapering program is due to end, Trudel expects volatility will increase heading into the middle of next year when the Fed is expected to start raising rates again.

The massive injections in liquidity from the Fed, Bank of Japan and the European Central Bank have helped create a market extraordinarily free of volatility, but this starts to change when the Fed completes its program in three months.

Just how the Fed handles any threat of inflation will set the tone for the market.

Trudel cautions inflation may represent a danger and says, even though wage inflation has been nonexistent, there are signs that some companies are finding it hard to get staff.

The risk is the Fed has overshot in being too accommodative, he says. The BlackRock fund is underweight the US because he can see better value offshore.

The relative positions of central banks is one factor but the US stockmarket is trading at 16 times forecast earnings, which is not cheap, and when you look at some alternative views such as the cyclical ratio of Yale's Robert Shiller the multiple is more like 26 times.

The ratio is based on inflation- adjusted earnings over the past 10 years. Trudel's fund is based in New Jersey with 45 people managing more than 500 stocks in 40 countries, working on a bottom-up basis but with a heavy overlay of macroeconomics to adjust **company** expectations.

The fund is bullish on materials, including the likes of BHP Billiton and Rio Tinto, based on the fact the market has overemphasised the slowdown in **China**, **energy** and healthcare.

Australian banks are considered relatively expensive.

Amcor's dilemma ONE question facing Amcor boss Ken MacKenzie is whether he should chase growth in Asia, where he is considered underweight, or Europe, where he's already strong so any deal reaps significant synergy benefits.

Private **equity** controlled, Austrian-based Constantia Flexibles, which pulled a proposed $US1.1bn float late last year, is one long rumoured candidate.

Woodside vote THE debate over Woodside's decision to direct over 30 per cent of its franking credits to Shell via a selective buyback will be decided on Friday and votes are now presumably locked in. It should be said the **company** has done precisely the right thing by buying back the shares, subject to shareholder agreement, with the deal poised to leave Shell with just 4.5 per cent of the stock.

Shell was a known seller of its 23 per cent **stake** and the issue was just who wanted it off the register faster: shareholders fearing an overhang or management wanting to clean up loose ends. Arguably the latter has more to gain but the franking credits are worth something to all shareholders. ACSI argues, rightly, that Shell is being treated differently from other shareholders and by definition this is bad corporate governance unless shown otherwise.

Surprisingly the Australian Shareholders Association has backed this deal when history would suggest it might push for an open buyback.Friday will see if the board was successful in convincing shareholders of the commercial merits of an in-principle bad deal.

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