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What to look for in a firm's prospectus

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READ a prospectus from the back to the front if you want to know what is really going on, according to the experts.

The mantra these days is "disclose everything" so that investors can't come back later and claim they were misled, and now public disclosure statements are running at 30, 40, 50, 60, 70, even 80 pages.

Some prospectuses are getting to be the size of coffee table books and few investors bother trying to read them given the font size gets smaller and smaller. But it's all there.

Prospectuses are kind of like beauty parades, with some promoters hoping to dazzle and distract would-be investors with colourful and impressive images.

It's an industry unto itself, with competitions for the best book, specialist consultants, graphic artists and public relations gurus to "sell" the initial public offering.

Geoff Wilson of Wilson Asset Management recommends investors ignore the glossy pictures and fancy tables in the front of a prospectus and get your nose down the back of the book.

"I always read a prospectus from the back. Why is that? It's because I am trying to find out whether the people who are floating the company are good business people, are good managers and are focused on looking after me as a shareholder," says Mr Wilson, who began his listed investment company 25 years ago.

"The first thing I look for is what the cost of raising the capital is and where you find that is in the cost section. Divide the total cost of the issue by the total amount they are raising and work out what percentage that is, you want it to be as low as possible."

Larger companies can usually get smaller percentages.

"I'm hoping to see smaller companies at 5 per cent or below and larger companies I'd want to see them well under 5 per cent," he said. "Back in the tech boom, I remember travel.com floated and their percentage of costs to raise the money was 13.8 per cent and to me that shows total disregard.

"Our focus is very much about keeping costs to a minimum and whenever we've raised our money it's been at about 1.8 per cent because we don't get it underwritten as you've got to pay a bigger fee to guarantee the raising, we do it on best endeavours."

Underwriting fees generally run at 3-5 per cent of the issue.

Mr Wilson said investors always need to ask the question -- where is the money going?

"I favour capital raisings where the money is going into the company not going into the current owner's pocket," Mr Wilson said.

Recently, the venture capitalist owners of such companies as Pacific Brands (which owns Bonds clothing) and Just Jeans sold out after the companies floated.

Locally, Transpacific Industries chairman Terry Peabody is raising as much as $212 million by selling almost half of his stake in a public float of Australia's biggest liquid-waste management company. He'll net $173 million from the deal.

McCullough Robertson Lawyers' business partner Matthew Burgess believes that while the Federal Government's Financial Services Reform legislation had ensured far greater levels of disclosure to investors, many people felt that prospectuses had simply become "even longer and even more boring".

"If you skip over the glossy stuff at the beginning and go straight to the back there will be the fee disclosure. Often much of the enthusiasm for a product, fund or share can be directly explained by the level of fees that that adviser might be receiving if you buy the product," he says.

"Who is trying to encourage you to buy in? Have an understanding of what those fees are -- and they won't necessarily be direct fees, they could be option arrangements and performance bonuses on top of the direct fees."

Mr Burgess recommends investors compare "apples with apples" to gauge if the fees are excessive or not.

"You don't compare the success fee on AMP's All Ordinaries Fund with a new biotech company coming out of the University of Queensland," he says.

The corporate cop -- the Australian Securities and Investments Commission -- wants retail investors as fully informed as possible on the vagaries associated with the sharemarket.

The regulator points to FIDO, its useful and easy-to-read consumer website, which explains some of the finer points of investing.

A prospectus should enable you to make an informed decision about whether to invest in the shares of a particular company in the first place; the application form is relevant only after you have made a decision to invest.

GOLDEN RULES

1. Resist the temptation to invest straight away.

2. Look for a clear picture of the business and how it will make money.

3. Decide if the risk suits you.

4. Scrutinise forecasts and projections

5. How risky is the offer?

The more risky offers may:

* Raise large amounts of new capital compared with the company's size.

* Rely on raising more than the minimum amount to cover what the company wants to do.

* Skimp on describing what the company will do with the money.

* Lack an underwriter to pick up any shortfall if not enough money is raised, or use an underwriter without an

established reputation.

6. Study the fine print - the offer's terms and conditions. Once you've decided you're interested, read the details of the offer.

Some securities don't operate like ordinary shares and may prove harder to sell later.

Get a stockbroker or licensed adviser to explain complex terms and conditions.

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