



APRIL 2016

Investor Update – April 2016

Welcome to the April Edition of Investor Update. This month Marcus Padley looks at how to strip bank dividends while Don Stammer teaches us 5 lessons to be learnt from the recent share market turbulence. Michael Gable poses the question of have we found the low in banks.

Don't forget the Early Booking Bonus for the upcoming AIA Annual National Conference. If you book and pay before the 31st May or book and pay a \$100 deposit and the balance by 8th July, you will go into the draw for 3 nights accommodation at the Marriott Resort and Spa during the conference. You will also get a free ticket to the Monday night Master Class.

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How to strip bank dividends

Marcus Padley – Marcus Today

STRIPPING THE BANK DIVIDENDS

There is a trade that a lot of brokers earn commission out of and a lot of retirees like to do which is to buy the banks ahead of their results season. They do it for the following reasons:

To strip the dividends.

- Generally speaking the banks also rally in the 3 months ahead of their results and dividends, depending on the market of course. See the seasonal chart of the bank sector below.

Upcoming Events

AIA Annual Investors Conference



Strategies
Risk Off
Risk On
Alternatives
Superannuation & Retirement

Perth Information Meeting

3rd May 2016 7.30pm

Brisbane Information Meeting

4th May 2016 1.30pm

Adelaide Information Meeting

10th May 2016 7.00pm

Sydney North Shore Group

11th May 2016 7.30pm

[All Meetings](#)

- A lot of dividend strippers like to buy more than 45 days before the stocks go ex-dividend so they can qualify for the if they want to
- franking under the 45 day rule. You can see how many days we are from the ex-dividend dates in the table below. Basically for the major banks we are in the sweet spot to buy the sector - about 50-60 days out.

Having bought at least 45 days before the ex-dividend date strippers then have the option to sell the stock immediately it goes ex dividend

The problems with this trade include:

- It is heavily promoted by brokers who sell it as easy money but it is not necessarily a money maker. It only works in a bull market...if the sector is going up. But brokers love any idea that involves clients trading big bank holdings - it is such an easy trade to persuade clients to do and is often done in large size for a lot of commission which often negates the dividend you are chasing. Money for old rope for a broker. The good news perhaps is that the brokers do promote it so if you get on before them (now) they spend the next month promoting your trade.
- Rather peculiarly the banks do tend to peak just before results and dividends so the higher odds trade is not buying and holding for a dividend but buying the sector and selling just before results not waiting for the dividend. Simply because they always seem to peak on results and fall into the ex-dividend date rather than rise. Obviously a lot of people are focused on the franking and will blindly take the risk on a share price fall in order to get it. But quite often they will lose more in share price terms ignoring the peak, watching the stock go ex-dividend (where it often falls more than the dividend) than they collect in dividends and franking.

Here are a few things you need to know to do this trade

- the dates of results, the expected ex-dividend dates, how many days until the ex-dividend dates plus the forecast dividend and the yield on this next dividend and the yield including franking (as of 23/3/2016):

	Company	Date of Results	Days to Results	Ex Dividend Date	Days to Dividend	Forecast Dividend	Yield on this div.	Yield inc. Franking
BOQ	BANK QLD FPO	7-Apr-16	15	15-Apr-16	27	37.4	2.98%	4.25%
WBC	WESTPAC FPO	2-May-16	40	13-May-16	55	95	2.94%	4.20%
ANZ	ANZ BANK FPO	3-May-16	41	6-May-16	48	84.5	3.33%	4.76%
NAB	NAT. BANK FPO	5-May-16	43	13-May-16	55	104	3.82%	5.46%
MOG	MACQUARIE GROUP	6-May-16	44	18-May-16	60	210.7	3.12%	4.46%
BEN	BEN ADE BK FPO	8-Aug-16	138	18-Aug-16	152	33.7	3.52%	5.03%
CBA	CBA BANK FPO	10-Aug-16	140	18-Aug-16	152	229	2.99%	4.27%

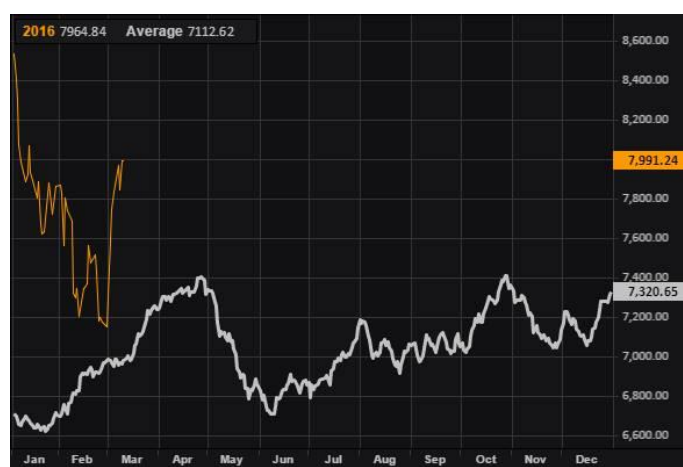
The astonishing bit about this trade this year is that you can pick up a 5.46% yield on the NAB in one dividend in 43 days time during which, considering the correction in the bank sector and how cheap the sector has become, there appears a better than 50-50 chance that you will get a share price rally out of it as well.

Your main risks are:

- The market stays in downtrend or corrects even further.
- The results disappoint.
- The banks decide to raise more capital through share issues at the results.
-

Otherwise it looks pretty good trade.

Meanwhile **here is a seasonal chart of the bank sector** (in white) going back to 2009 which also shows the bank sector performance so far this year (orange). You can see this peak in the sector in late April (just before the results) and then the collapse in May after they've gone ex dividend - **it averages about minus 9.5%** - so if you ignore it you lose more than the dividend and franking. The next set of results after these are in early November and you can see that the sector peaks again just before those results and then falls again for the next month...same pattern.



The bank sector is also arguably to blame for why the Australian market also seems to peak in May, because a sector which accounts for 28% of the total index tends to

fall over in May hence the expression “Sell in May and go away”.

You can see from this why I’m saying that the smarter trade, assuming the sector follows its usual pattern, is to buy early (now) for the run up in February, March and April and then sell just before the results to avoid May.

OTHER POINTS TO NOTE

- The reason the sector may peak before results is because about 20-25% of each major bank's share register is held by international institutions that don't get the franking. They are thought to sell the sector before the dividends because the stocks tend to go ex the dividend *plus* the franking they don't get and they are cheated by that. So sell before and buy back later (early June...for the next run to November).
- Note that stocks fall by the amount of the dividend on the day they go ex-dividend (there is nothing for nothing in the share market) so to make money on this trade you really need to be able to utilise the franking and you really need the sector to rally ahead of the results and dividend which means it is only really a good idea (obviously) if the market and the sector are flat or rising and not in downtrend. Which it has been.
- As you'll see from the table. The CBA and BEN have different year ends and do not have a dividend coming up.
- If you look at the seasonal chart above you'll realise that the bank sector has gone up on average about 9.25% pa since 2009.

Marcus Padley is the author of the Marcus Today stock market newsletter and is best known for his appearances on the ABC TV and Radio together with his books and his articles published in various newspapers and magazines.

Marcus is attending and presenting at the AIA Conference in August at the Marriott Resort and Spa.

Five lessons from the recent turbulence in share markets

Don Stammer - Courtesy of cuffelinks.com.au

In the first ten weeks of 2016, share markets were often described as turbulent. Globally, shares shed 11% of their value between the start of the year and mid-February. Predictions of a global recession were

frequent and shrill. Oil and iron prices tanked. Adding further to the gloom, a cleverly-marketed research report did its rounds, predicting a collapse in Australian house prices and bank shares.

Then, the widespread gloom dissipated. By mid-March, key share indexes in the US and Australia – and, surprisingly, those in emerging economies – had recovered most of their earlier losses. Bulk commodity prices shot upwards, with iron ore up by an impressive 66% from its low point. Bank shares were keenly sought.

Before drawing out the five lessons, what were some of the causes of these gyrations?

Markets often swing widely when big investors take or unwind similar positioning

In January and early February 2016, many large investors – hedge funds particularly – adopted similar investment decisions. This included selling, and in some cases shorting, assets that would likely plunge in price when China fell into a hard landing.

Fiduciary's Michael Mullaney described the January sell-off in shares as reflecting “an oversold condition with everyone on one side of the boat”. Later, the rush to close out these short positions added intensity to the share market rebound, often at significant cost to investors still holding the short positions that were so popular among hedge funds previously.

Investors put too much emphasis on soft numbers on the Chinese and US economies

In January and early February, many investors interpreted data on China's external trade and manufacturing as confirming the ‘contraction’ of the Chinese economy. Subsequent information shows that continuation of useful gains in retail sales and the services sectors in China have partially offset the slowing growth in manufacturing and heavy industry. China faces many problems, but the hard landing predicted since 2011 has, so far at least, been avoided.

In the US, market sentiment in the early weeks of the year focussed too much on the risks of consumer spending remaining soft and on US banks being crippled by the write-downs on their energy loans. As it turned out, US job creation and consumer spending have continued to track at reasonable rates.

Lower oil prices hurt some ... but benefit many

Recently, the key indexes of average share prices have often moved in lockstep with the oil price. It seemed as though the oil price was being taken as an indicator of global growth. As well, there were (exaggerated) concerns the lower oil price would create a banking crisis.

In reality, the fall in the price of oil – which results more from excess supply than from contracting demand – is bad news for most energy producers but will, over time, favourably affect many businesses (lower costs) and households (enhanced spending power).

Investors need to be wary of predictions of an imminent housing crash in Australia

Periodically, claims are made that Australian housing is in a bubble, house prices are about to crash and the prices of our bank shares will crumble because of bad debts.

A report marketed in January and early February by a local portfolio manager and a UK hedge fund argued our house prices and bank shares could soon lose half or more of their value. Their shrill conclusions were given front-page coverage in The Australian Financial Review. It carried no alternative expert views and gave little recognition to the low default rates that are a feature of housing finance in this country given that most loans are full-recourse to the borrower. Excesses in the Australian housing market are usually worked off by average house prices moving sideways for a few years; falling prices are rare.

The Australian Financial Review's Christopher Joye suggested investors who'd shorted bank shares would be scrambling to buy them back to close out their positions. Subsequently he commented,

"Bank stocks have bashed the 'johnny-come-lately' hedge fund barbarians that stormed the gates last week. The catalyst has been fact triumphing over the hedge funds' book-spruiking fiction."

What lessons have we learned?

I have distilled these five lessons from the last three months of turbulence:

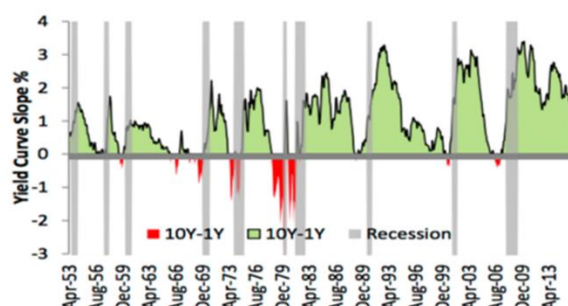
1. When sentiment on the global economy is fragile, the accumulation of even mildly negative news can drive share markets a lot lower. (Extreme things also happen when the prevailing view in share markets is

ebullient. For example, a year ago, share markets rose on both good and disappointing news on economic activity: strong data because they suggested better profits; and weak data because they meant interest rates would be lower for longer).

2. When expectations in share markets build up in a largely uniform way, investor positioning – and the subsequent unwinding of those positions – can trigger big moves in share prices.
3. Sometimes (such as 2008), a sharp fall in share prices portends a lengthy period of difficult times for investors in shares. At other times (for example, 2011 and, it seems, early 2016), the crash in share prices soon corrects and may well be quickly forgotten. As Paul Samuelson famously quipped in 1966, the US share market had predicted nine of the previous five recessions.
4. The challenge for investors is to pick whether or not a share market sell-off will be followed by a lengthy slump in share prices. This requires giving fresh thought to the risk of an early recession. The traditional indicators of imminent recession include, but are not limited to: a sharp rise in unemployment; a sudden tightening in credit; and a flattening or inversion of the yield curve. In the US, the shape of the yield curve has a good record in predicting recessions, as the chart below shows. But much depends on investor confidence and sentiment, and that's hard to foretell.

The US Yield Curve Has Always Flattened Before a Recession

Source: Deutsche Bank



- Investors were too pessimistic early in the year on global growth prospects. Now, there's a more balanced outlook, with shades of grey in assessments on economic prospects in China and the US. But the key concerns of many investors – such as the sustainability of negative nominal interest rates in Europe and Japan and the stretched valuations on shares in companies with strong growth in earnings – have not been overcome. Further swings in investor sentiment should be expected in the months ahead.

Perhaps the most important lesson is that at times of stress, sensible diversification, including a good allocation to cash, makes sense.

Don Stammer chairs QV Equities, is a director of IPE, and is an adviser to the Third Link Growth Fund and Altius Asset Management. The views expressed are his alone and do not address the needs of any individual. This paper draws on material in a column by the author published in The Australian.

Don is also speaking at the AIA Conference in August

Have we found the low in banks?

Michael Gable – Managing Director Fairmont Equities

We know it can be dangerous trying to pick a low but it's a question that is often asked by many retail investors such as my own clients so it would be silly to dismiss it out of hand. If we take a time frame of at least the next several months, then we can try to understand the probabilities and tilt some trades into our favour.

As an investor, you are aware that the greatest fear in the share market often occurs at the low, and this is when you should be buying. Easier said than done, but let's have a look at what has happened recently. Having plunged in the order of about 40 per cent already from last year's highs, we had overseas hedge funds telling us that there was further downside to go. They went on to say that the Australian housing market was in trouble and with films like "The Big Short" being a hot topic, they decided to relate this to our property market and claim that to be the "next big short". The way to profit from this would be to sell the Australian banks which have large lending exposures to Australian residential property. As we can see now, this seemed to have had the opposite effect. It drew a line in the sand under the banks and their share prices have rallies instead. Looking

at ANZ as an example, in the 3 weeks since its low in February, it managed to climb nearly 20 per cent on intraday prices. Those who put their emotions to one side and bought in have once again been handsomely rewarded. Ten percent yields (including franking) on a stock that does not need to cut its dividend was never going to stay down there for too long.

My philosophy to investing is to combine both fundamentals and technicals, so let's look at what the charts are showing, using ANZ again as an example.



As with the other banks, ANZ experienced a very positive reversal a couple of weeks ago (indicated by the arrow). This chart is a one year, weekly candlestick chart. The candle indicated by the arrow is bullish because it retested the recent lows and then closed well above the high of the previous week and well above where the stock was trading the few weeks before that. This bullish candle was then followed by another candle that sat above the first one and saw the buying strength continue. We have also had divergence on the Relative Strength Index (RSI) which is where the share price went to a new low, but the RSI was already trending up. Simply put, there appears to be a good low now in place for ANZ – at least for the next several weeks leading into the dividend. I can see some minor resistance at current levels and then further up near \$29. This latter target may coincide with the May dividend which could see the stock ease back from there.

Michael Gable is Managing Director of Fairmont Equities. The information in this article is general advice only.

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If a friend or relative joins as a result of your recommendation, both of you will receive **an additional three months free membership**. Simply write your name and member number on the back of the referral card. This is our way of saying thank you for your recommendation.

We also draw your attention to a new membership category, Student. Full time students under the age of 30 are welcome to join the association at the discounted rate of 50% off regular membership and no joining fee.

The AIA Board

*AIA CONFERENCE MASTERCLASS

WHAT SMART INVESTORS LOOK FOR IN A COMPANY'S ANNUAL REPORT

A company's annual report is an ocean of information for investors. From financial figures to salaries of directors and chief executive officers, it has all the information an investor is likely to need. It also gives an account of how the company has performed in the preceding year and throws light on its future plans.

While the most searched figures in annual reports are sales, net profit, operating profit and the different financial ratios, there are a lot of other important points that are ignored by all but the most seasoned investors, and which can tell a lot about a company.

Presented by Sornem Private Wealth - This year the Masterclass will take a look at how to read and interpret an Annual Report, how to work out if a company's risk outlook is changing and the warning signs that most investors miss.

**Numbers strictly limited to 200. The Early Booking Offer includes admission for free. Outside of this, the cost is \$33 and admission will depend on availability. Light supper included.*

PRE CONFERENCE WORKSHOP

THINK OUTSIDE THE SQUARE – IF NOT SHARES THEN WHAT?

Have you asked yourself “What else can I invest in?” This workshop may be what you are looking for. Alternative Investments represent different approaches to investing across a variety of markets and asset classes. It is the unique mix of underlying risk factors that determine how individual investments are expected to perform relative to traditional asset classes.

Alternative strategies are increasingly used by institutional investors to help achieve both return and diversification goals, so if the “big guns” are taking advantage of this type of investing, maybe there is something in it for you.

WORKSHOP PROGRAM

1.00 - 1.45pm Unlisted mortgage funds
1.45 - 2.30pm Infrastructure
2.30 - 3.00pm AFTERNOON TEA
3.00 - 3.45pm Instalment warrants
3.45 - 4.30pm Technology
Full details available on website



2016 AIA CONFERENCE DESTINATION

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