



JOHN ADDIS  
EDITOR-IN-CHIEF

# Picking Stocks for Income

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# About Me

- Founder of Intelligent Investor (1998)
- Purchased by InvestSMART in 2015
- Current Editor-in-Chief
- Definitely not an analyst



# InvestSMART Group



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## INVESTSMART

is one of Australia's largest providers of online wealth solutions, helping more than 700,000 self-directed investors and self-managed superfunds protect and grow their wealth. Experience the full value of the portfolio management tools, research and advice from our three leading investment services.

- ✓ FREE Portfolio manager
- ✓ Research & insights
- ✓ Recommendations



## EUREKA REPORT

is one of Australia's largest providers of online wealth solutions, helping more than 700,000 self-directed investors and self-managed superfunds protect and grow their wealth.

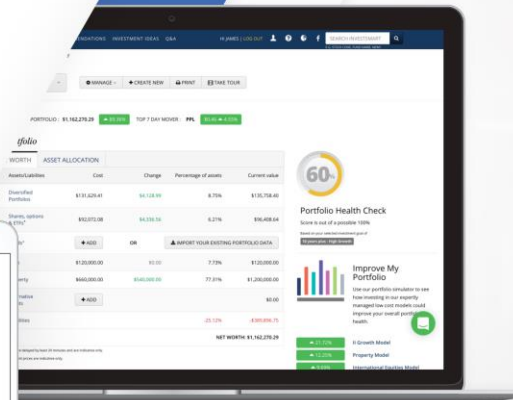
- ✓ FREE Portfolio manager
- ✓ Research & insights



## INTELLIGENT INVESTOR

is one of Australia's largest providers of online wealth solutions, helping more than 700,000 self-directed investors and self-managed superfunds protect and grow their wealth.

- ✓ FREE Portfolio manager
- ✓ Research & insights



## The App

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## PORTFOLIO HEALTH CHECK

10 Years plus : High Growth

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## PORTFOLIO SIMULATOR

Use our portfolio simulator to see how investing in our expertly managed low cost models could improve your overall portfolio health.

## INVESTMENT IDEAS

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- Growth Model
- Property Model
- International Equities Model
- Fixed Income Model



# Income Portfolio Performance

2004 - 2017

3 Year Performance (p.a.)

Index 7.1%

Portfolio 14.2%

5 Year Performance (p.a.)

Index 11.9%

Portfolio 15.6%

Performance Since Inception (p.a.)

Index 8.2%

Portfolio 13.6%



# Disclaimer

**WARNING** This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, seeking advice from a financial adviser or stockbroker if necessary.

**DISCLAIMER** This publication has been prepared from a wide variety of sources, which InvestSMART Pty Ltd, to the best of its knowledge and belief, considers accurate. You should make your own enquiries about the investments and we strongly suggest you seek advice before acting upon any recommendation.

**PERFORMANCE** Past performance is not a reliable indicator of future results. Our performance figures are hypothetical and based on recommendations from Intelligent Investor using stock prices at date of publication. Brokerage costs have not been included. As stocks rise and fall, returns may be negative. We encourage you to think of investing as a long-term pursuit.





# **Three Takeaways for Income Investors**

- 1. Mindset**
- 2. Guidelines**
- 3. Mini-portfolio**



# The Income Investing Mindset

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# Is This Man A Genius?













# **Man With A Hammer Syndrome**







**“It Ain’t Rocket Surgery”**

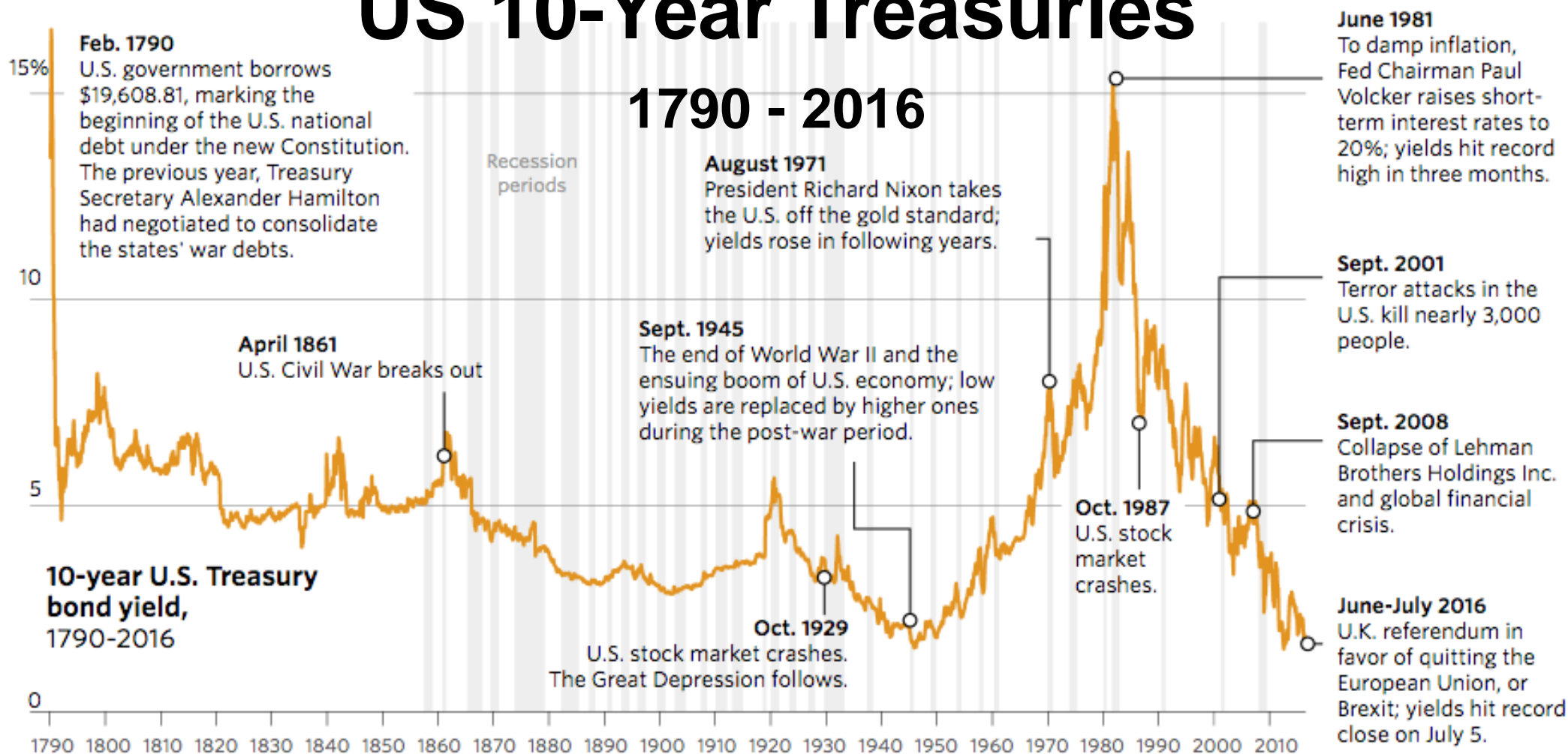


DreamCreepers.com



# US 10-Year Treasuries

## 1790 - 2016

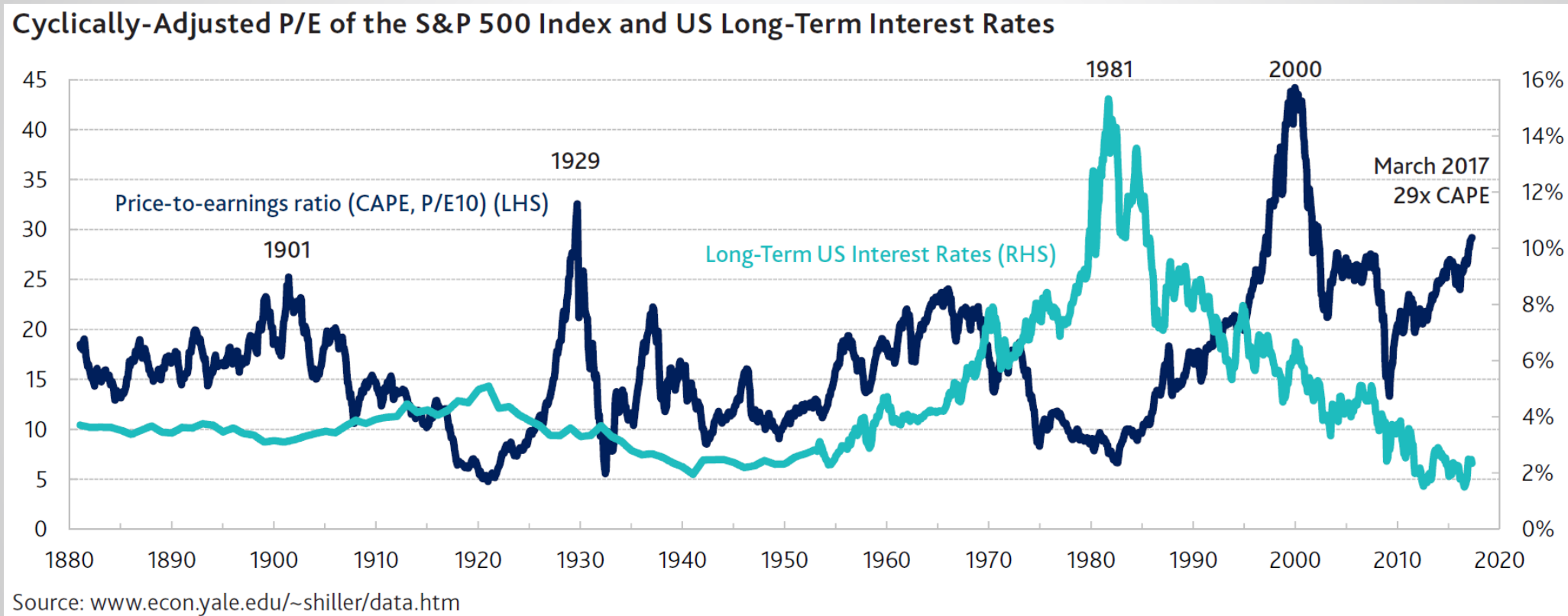


Recessions prior to 1854 lack official dates.

Source: Global Financial Data



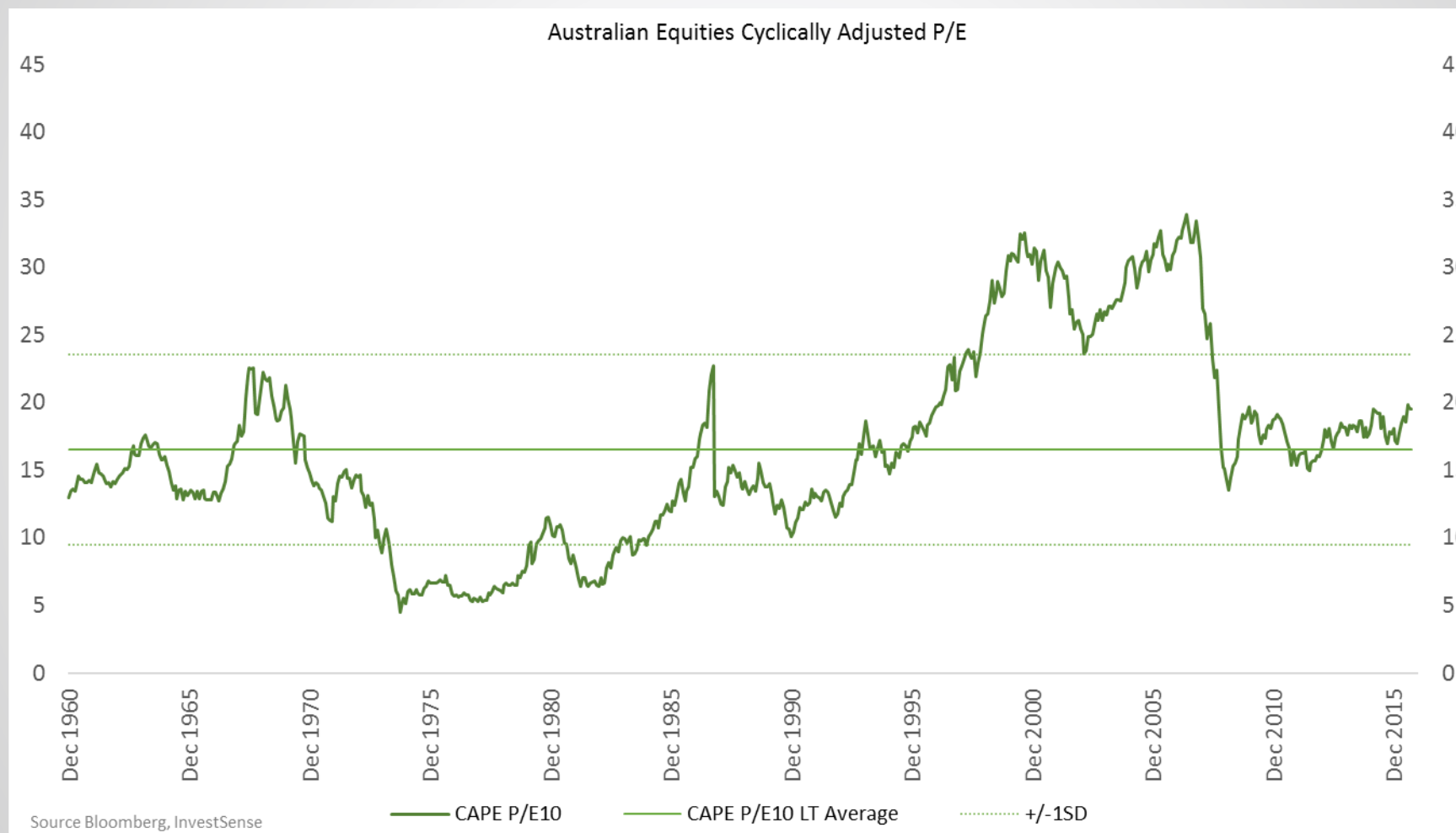
# Valuation: US Equities





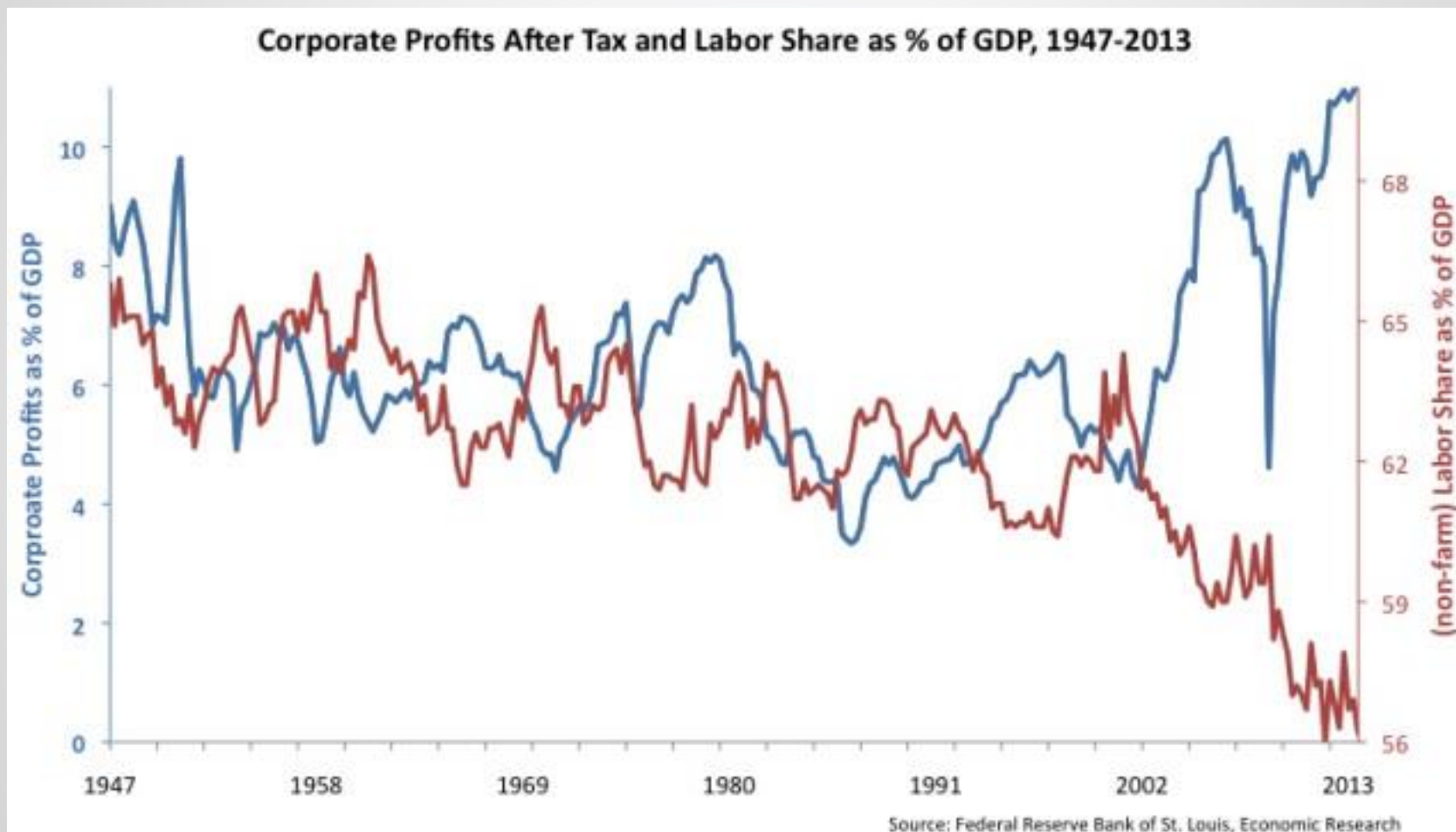


# Valuation: Australian Equities





# Capital Versus Labour

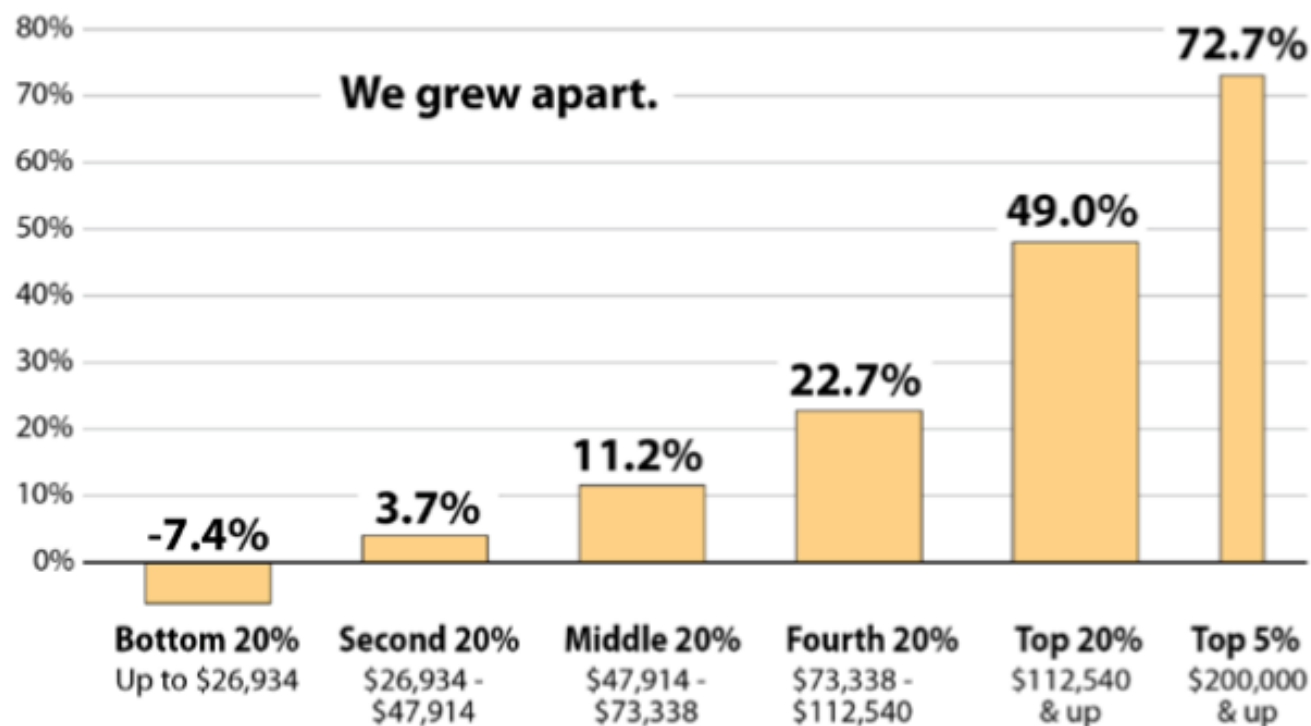




# US Income Inequality

**FIGURE 3:**

## Family Income Change by Quintile, 1979 - 2009

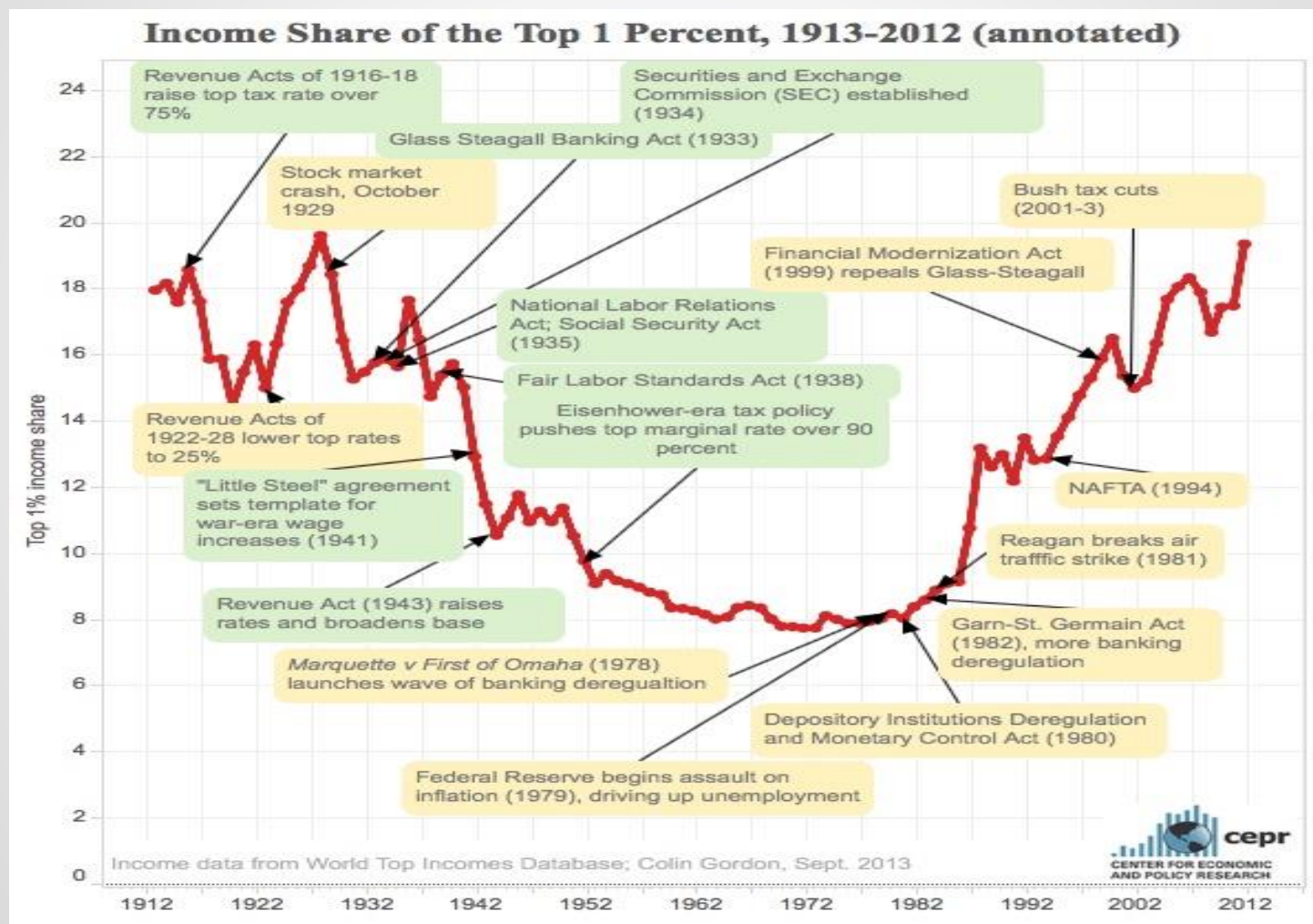


**Source:** U.S. Census Bureau, Historical Income Tables, Tables F-1 & F-3. Income ranges are in 2009 dollars.  
<[www.census.gov/hhes/www/income/data/historical/families/index.html](http://www.census.gov/hhes/www/income/data/historical/families/index.html)>



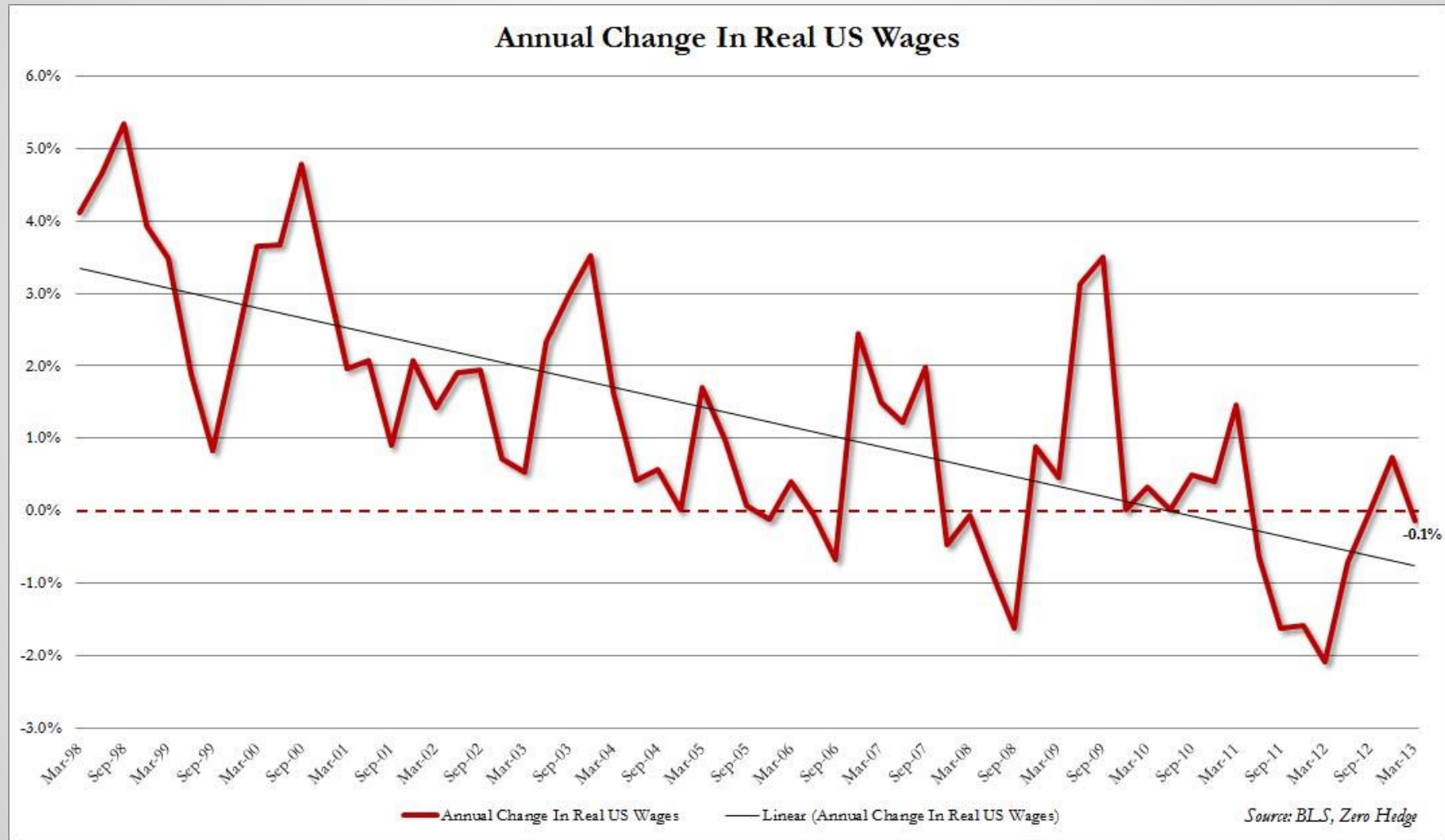


# The Robber Barons Are Back



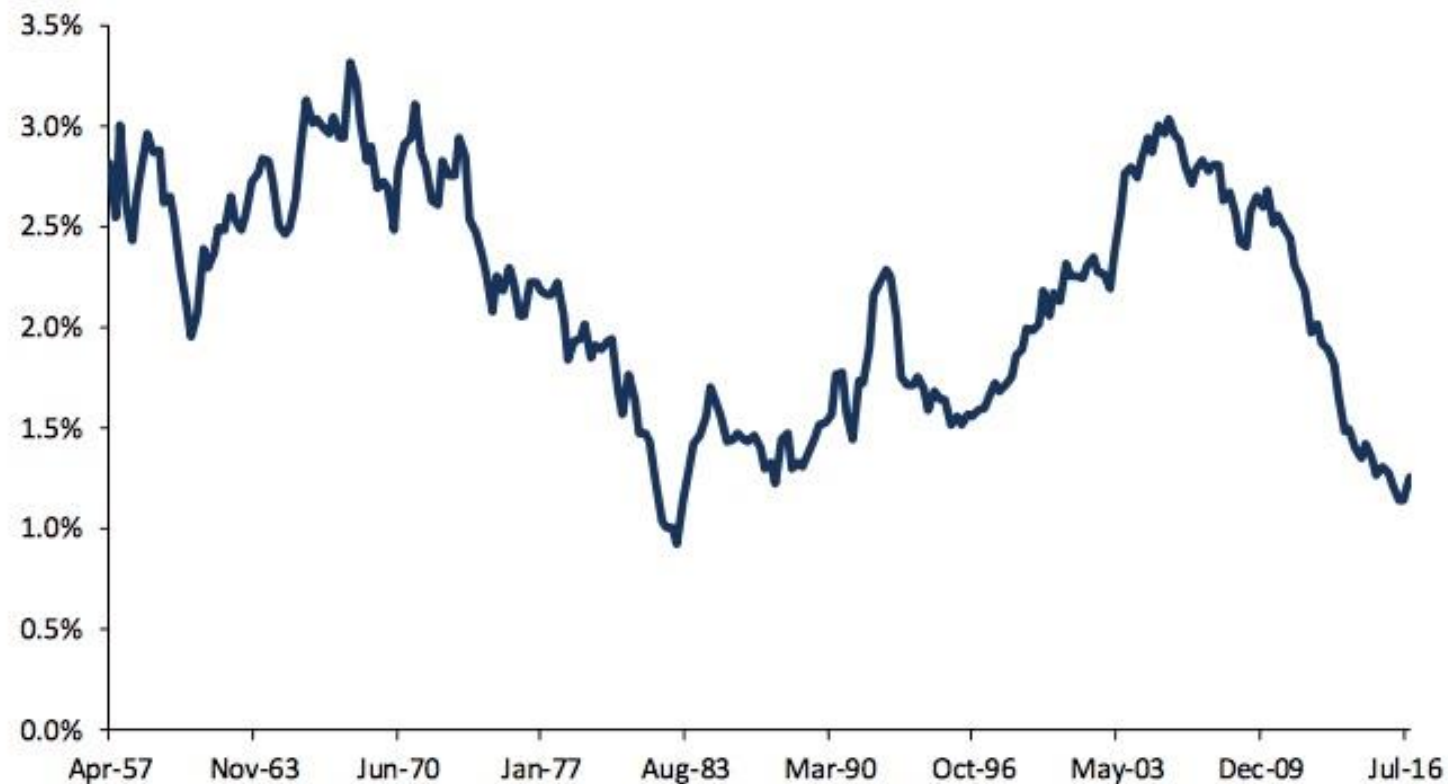


# Flat Wages Growth





# US Productivity Growth

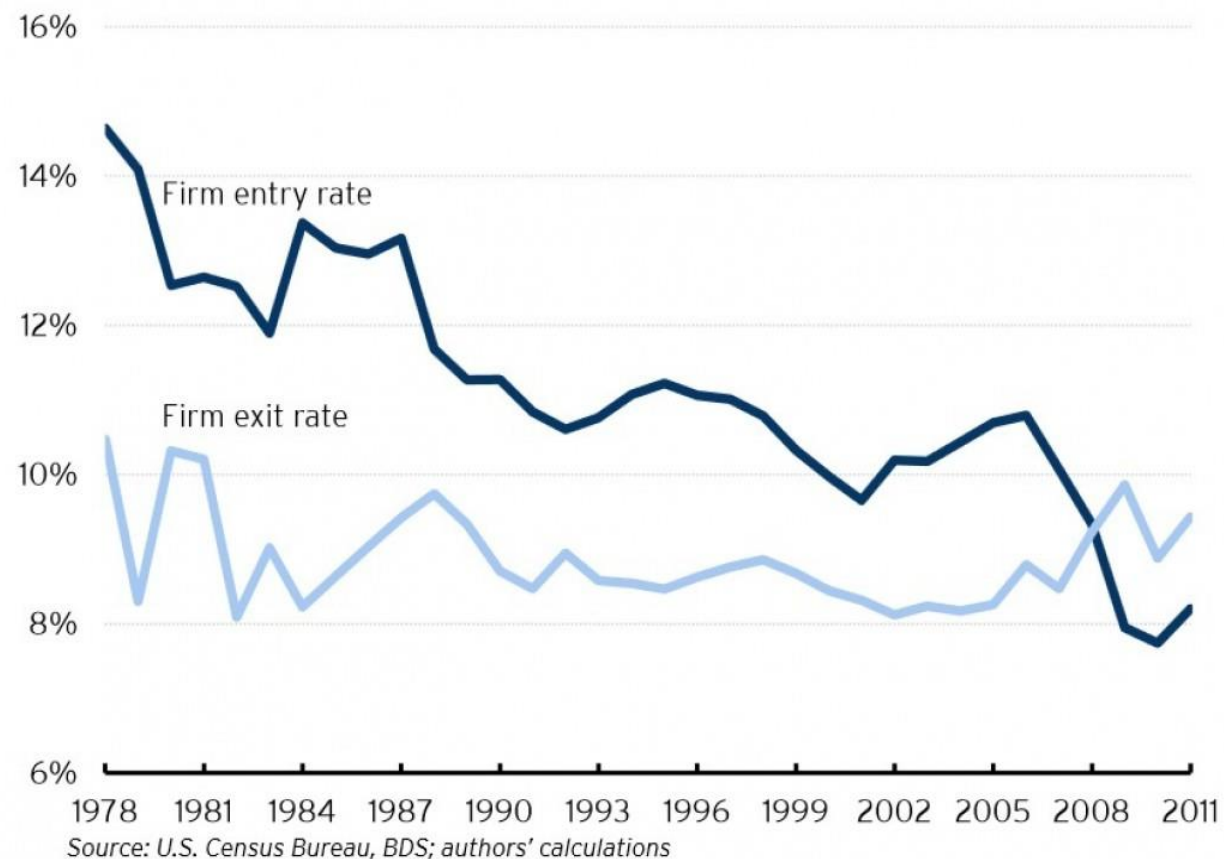


Source: Bureau of Labor Statistics





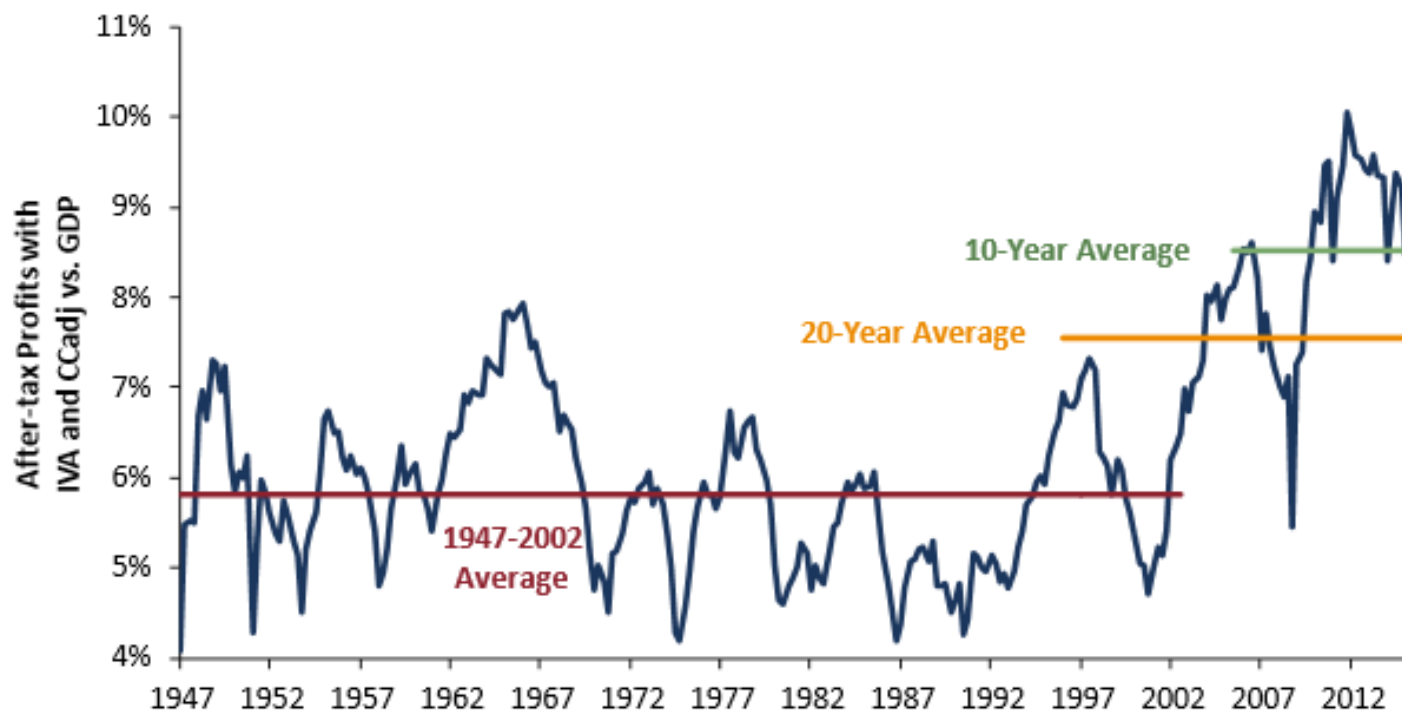
# Disruption Is A Myth





# Capital Versus Labour Again

Exhibit 14: U.S. Corporate Profits as Percent of GDP



Source: U.S. Bureau of Economic Analysis



# Income Investing Guidelines

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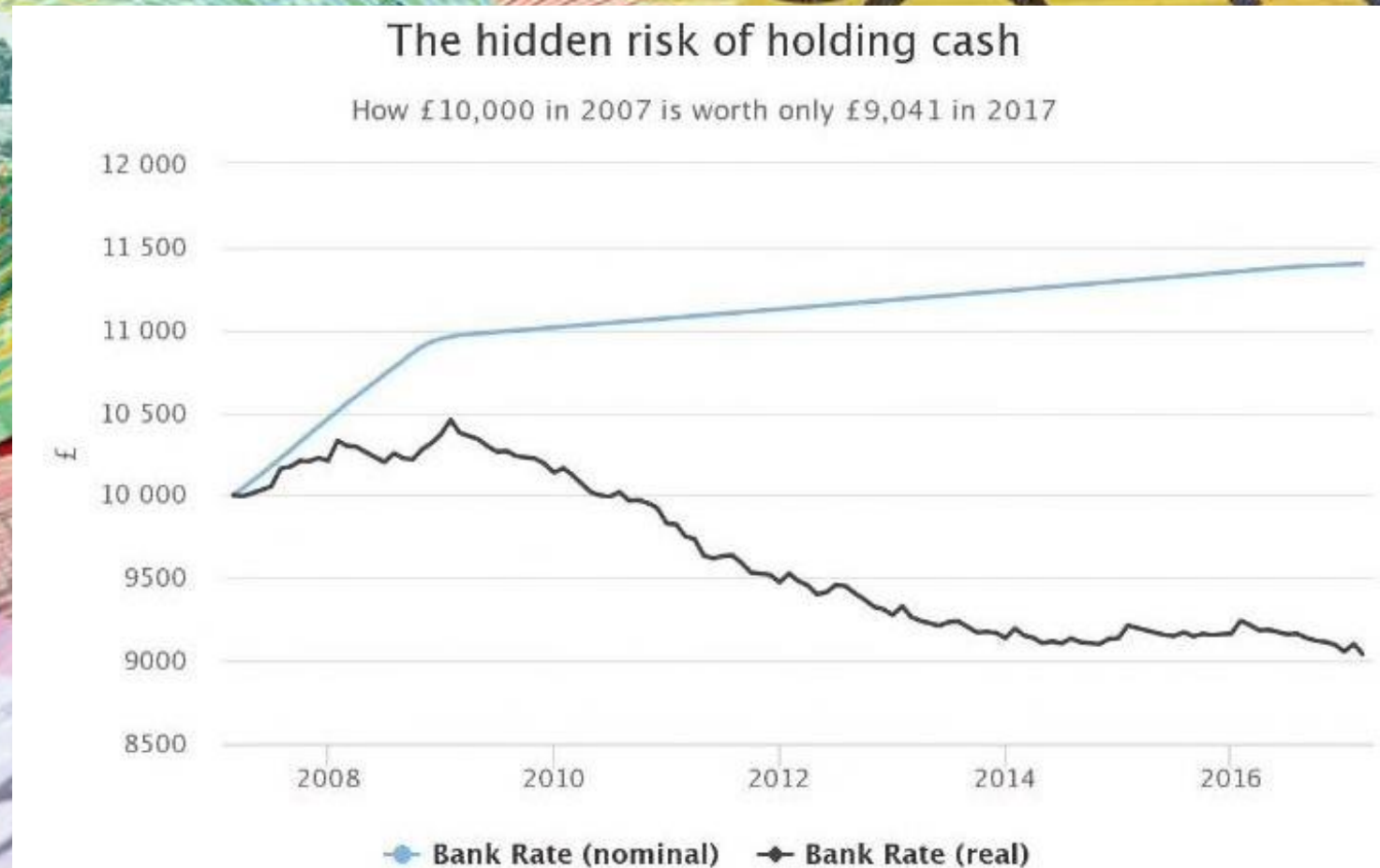
# 1. Don't Get Too Excited About Gold







## 2. Don't Get Too Excited About Cash







### **3. Don't Forget About Asset Allocation**





# InvestSMART Portfolio Manager

*Healthcheck*

SUPER

⚙️ MANAGE

+ CREATE NEW

🖨️ PRINT

🏠 Dashboard

🎯 Investment Goal

💚 Health Check

📊 Improve your Portfolio

📈 Assets in this Portfolio

Diversified portfolios

▸ Shares & ETFs

▸ Managed Funds

Cash

## Summary



### Portfolio Health Check

Score is out of a possible 100%

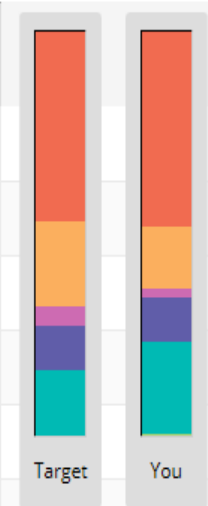
Your investment goal for this portfolio is

7 - 10 years : Growth

Try another investment goal

7 - 10 YEARS : GROWTH

## Investment Comparison



Asset class

Is your portfolio  
over/under weight?

● AUSTRALIAN EQUITIES

1.6% +

● INTERNATIONAL EQUITIES

5.6% -

● PROPERTY

3.1% -

● CASH

0.2% +

● FIXED INTEREST

6.8% +

● ALTERNATIVES

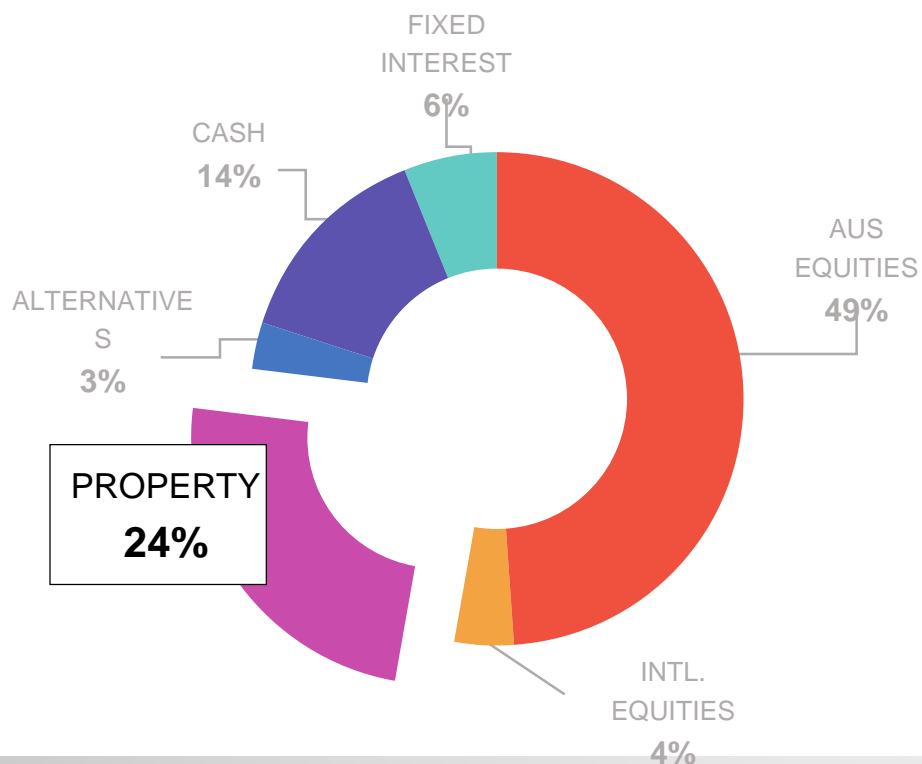
0.1%



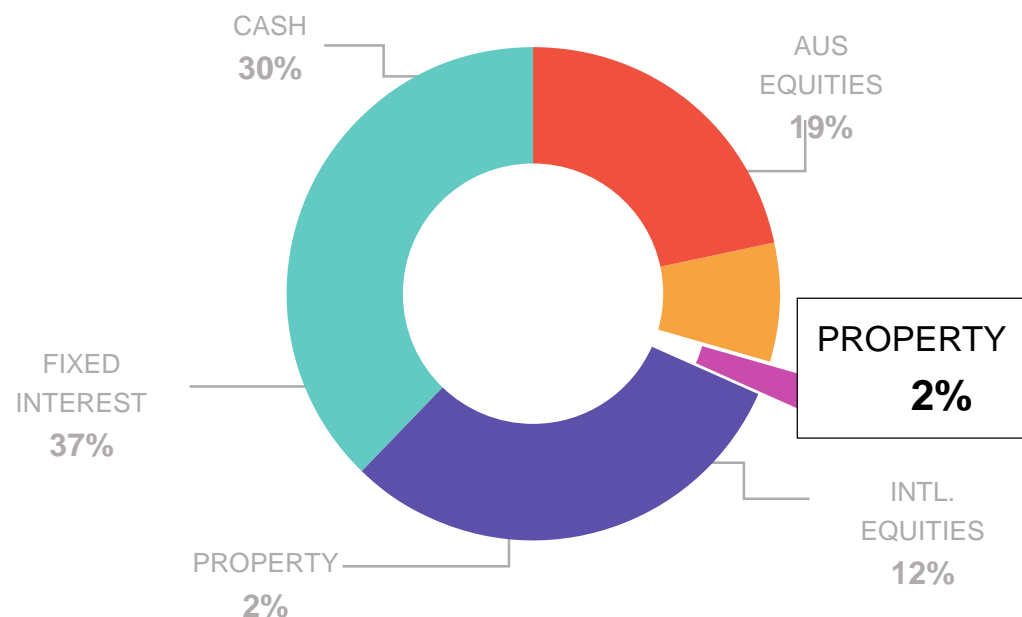


## 4. Don't Be Over-exposed To Property And Aussie Shares

INVESTSMART  
Average Member's  
Conservative Portfolio



INVESTSMART  
Recommended  
Conservative Portfolio





## 5. Don't Be Over-exposed To Banks

INVESTSMART

Average Member's  
Conservative Portfolio

**BANKS**

**24??%**

INVESTSMART

Recommended  
Conservative Portfolio

**BANKS**

**<20??%**



## 6. Don't Make It Too Complicated







## **7. Don't Get Too Hung Up On Where Your Returns Come From**





## 8. Try Not To Reach For Yield







## 9. Modify Your Expectations







## 10. Seek Dividend Truth





# 11. Expect Volatility



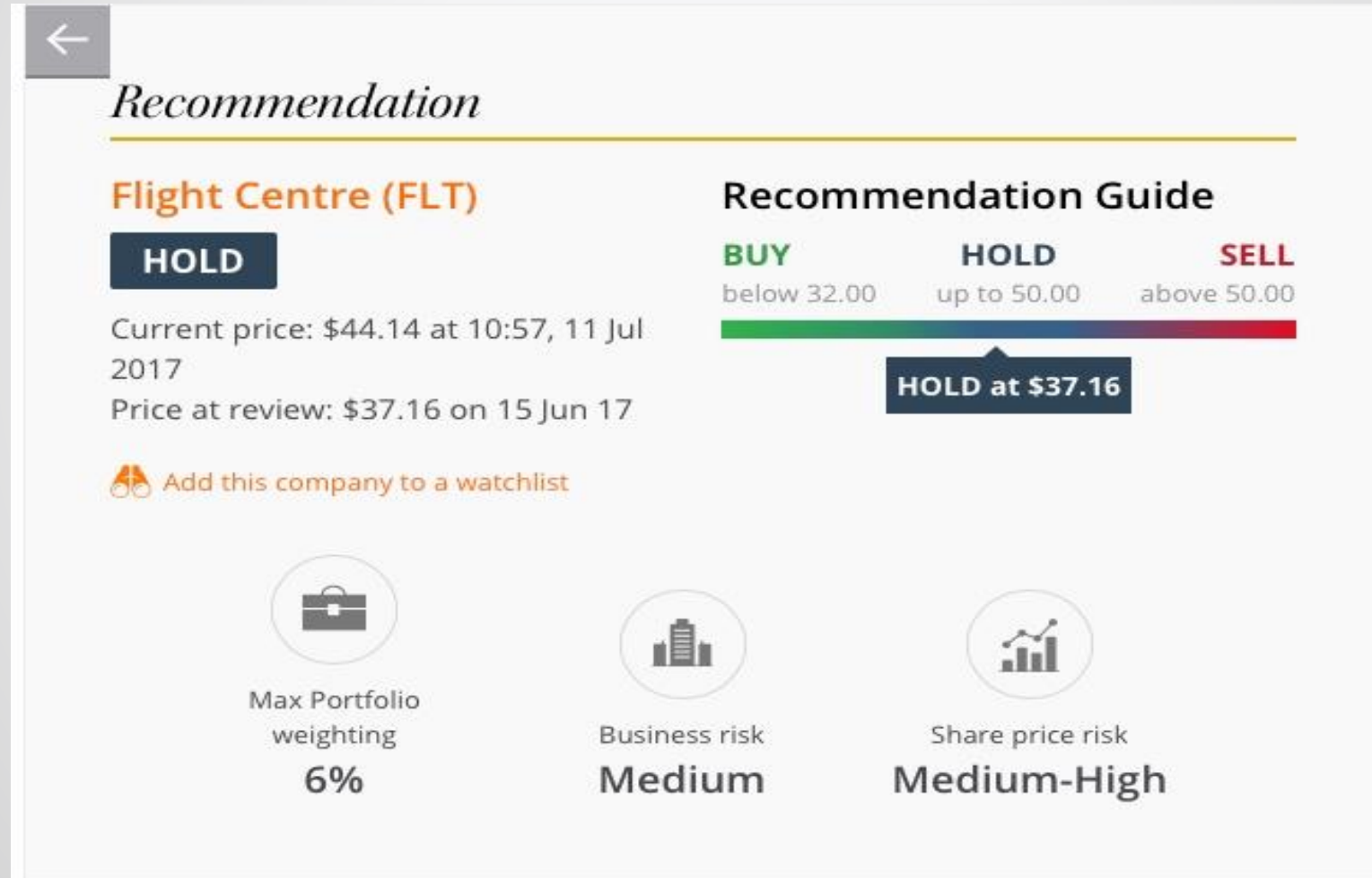
## **12. Focus On Valuation**





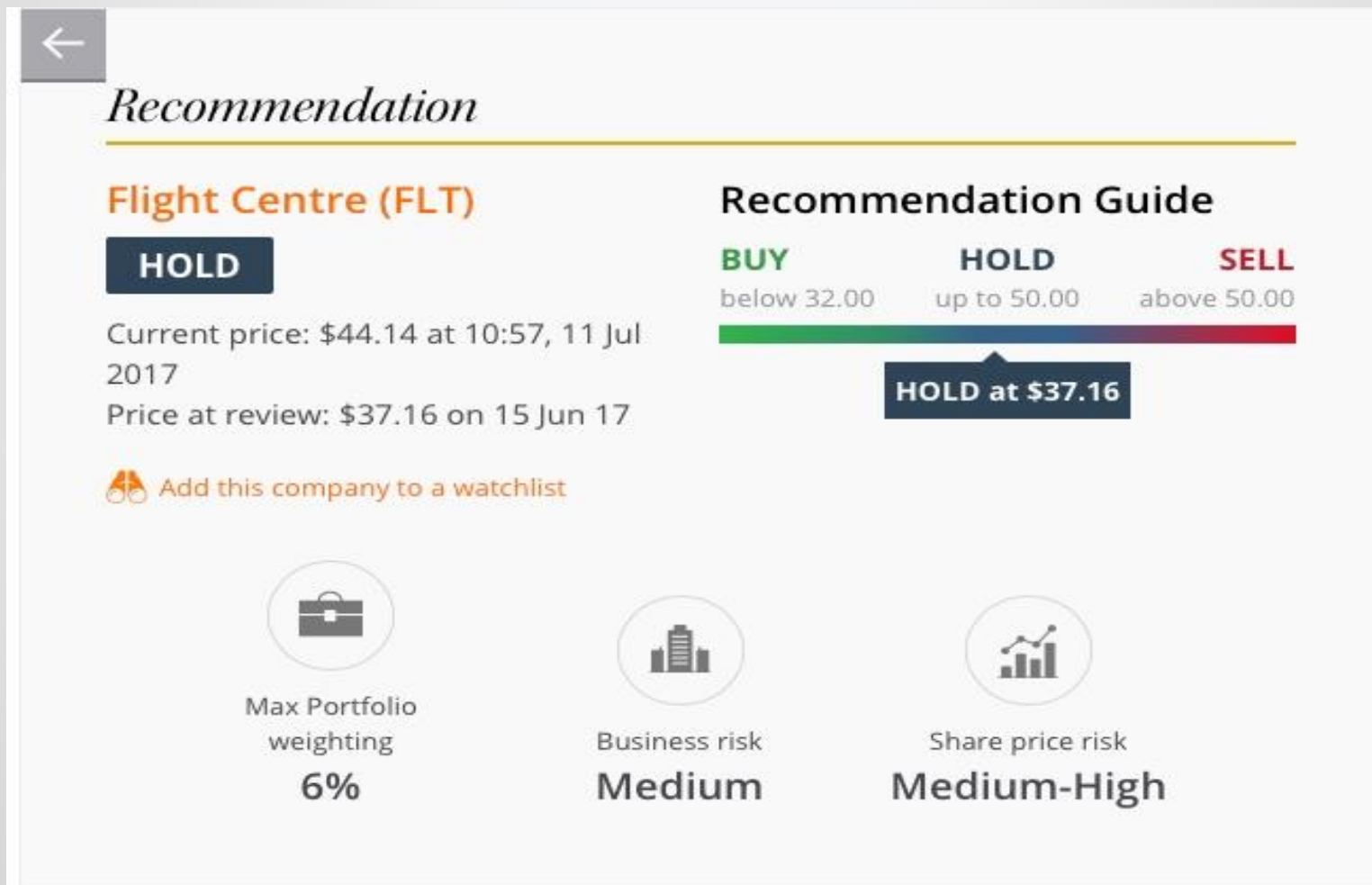


## 13. A Sell Price Is Around Fair Value





# 14. Which Means It's Okay To Buy Holds





# The Mini Portfolio

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ASX Code:  
**AYS**

Current Recommendation:  
**BUY at \$??**

Price	\$??
FY17 exptd div. yield	??%
FCF yield	??%
Franking	Unfranked
Portfolio limit	4%
Price Limit	Buy below \$2.00 Hold up to \$3.50
Reasons for inclusion	High quality growth stock; good management.
Key risks	Competition in mobile market; big energy acquisition.



ASX Code:

**ASX**

Current Recommendation:

**BUY at \$??**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	8%
Price Limit	Buy up to \$50 Hold up to \$70
Reasons for inclusion	Earnings set to grow; monopoly market position;
Key risks	Competition in equity clearing and potentially trading; major sharemarket weakness



ASX Code:

**FLT**

Current Recommendation:

**HOLD at \$??**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	6%
Price Limit	Buy up to \$32, Hold up to \$50
Reasons for inclusion	Strong in AU leisure and corporate travel; overseas expansion and/or acquisitions; weak players under pressure.
Key risks	Threat from online travel agents; recent weakness in airfare pricing; housing or consumer downturn.





ASX Code:

**IFL**

Current Recommendation:

**HOLD**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	6%
Price Limit	Buy below \$8 Hold up to \$12
Reasons for inclusion	Experiencing inflows; move to non-bank platforms; earnings to rise in 2018.
Key risks	Falling wealth management margins; earnings linked to equities; possible cap raising to fund acquisitions.



ASX Code:

**NVT**

Current Recommendation:

**BUY**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	5%
Price Limit	Buy below \$4.70 Hold up to \$7.50
Reasons for inclusion	Demand from international students; helps universities under funding pressure; strong cash flow.
Key risks	Loss of university contracts; government crackdowns on immigration or visa changes.



# Perpetual

ASX Code:

**PPT**

Current Recommendation:

**HOLD**

Price	???
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	6%
Price Limit	Buy below \$50 Hold up to \$70
Reasons for inclusion	High quality funds manager; proven track record; reasonable pricing.
Key risks	Sharemarket downturn; deterioration in investment performance.





ASX Code:

**SYD**

Current Recommendation:

**HOLD**

Price	???
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	8%
Price Limit	Buy below \$6 Hold up to \$10
Reasons for inclusion	Monopolistic business model; passenger growth;
Key risks	Rising interest rates; recession; China crash



ASX Code:

**TME**

Current Recommendation:

**BUY**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	6%
Price Limit	Buy below \$5 Hold up to \$7.50
Reasons for inclusion	Dominant position in NZ online classifieds; latent pricing power; cost growth slowing.
Key risks	Downturn would reduce transaction activity; new competitors could hit margins.



ASX Code:

**VRT**

Current Recommendation:

**HOLD**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	5%
Price Limit	Buy below \$5.50 Hold up to \$9.00
Reasons for inclusion	Women having kids later in life; emotional purchase; strong market position.
Key risks	Low-cost competition; slowing economy; lower Medicare support, fertility specialists leaving once off contract.





# Wesfarmers

ASX Code:

**WES**

Current Recommendation:

**HOLD**

Price	\$??
FY17 expctd div. yield	??%
FCF yield	??%
Franking	100%
Portfolio limit	8%
Price Limit	Buy below \$38.00 Hold up to \$55.00
Reasons for inclusion	Great retail brands; excellent management and culture, focused on shareholder returns.
Key risks	Retail downturn; Amazon entry to Australia; acquisitions don't work out.

**Table 1: The Holds to Buy mini-portfolio**

Company	Current Price (\$)	Latest Recommendation	Max. Portfolio Weight (%)	Sell Above (\$)	Free Cash Flow Yield*	Expected FY17 Dividend Yield (%)
Amaysim (AYS)**	1.91	13 Apr 17 (Buy – \$1.89)	4	3.50	6.2	5.5
ASX (ASX)	51.65	17 Feb 17 (Hold – \$51.74)	8	70.00	4.0	3.9
Flight Centre (FLT)	37.16	4 May 17 (Hold – \$33.80)	6	50.00	4.8	5.2
IOOF (IFL)	9.56	22 Feb 17 (Hold – \$8.44)	6	12.00	6.0	5.4
Navitas (NVT)	4.42	11 Apr 17 (Buy – \$4.37)	5	7.50	1.7***	4.3
Perpetual (PPT)	54.42	28 Feb 17 (Hold – \$51.61)	6	70.00	5.2	4.9
Sydney Airport (SYD)	7.61	3 May 17 (Hold – \$7.05)	8	10.00	4.1	4.4***
Trade Me (TME)****	4.84	25 Feb 17 (Buy up – \$4.61)	6	7.50	5.3	3.5
Virtus Health (VRT)	5.43	28 Mar 17 (Hold – \$5.99)	5	9.00	7.5	4.9
Wesfarmers (WES)	40.51	14 Jun 17 (Hold – \$40.50)	8	55.00	5.5	5.2

\*Over the past 12 months.

\*\*All dividend yields fully franked, except for AYS, SYD and TME, which are unfranked.

\*\*\*NVT FCF yield should normalise around 6% as capex subsides.

\*\*\*\*TME figures in AUD.



# Thank you







# Questions & Answers