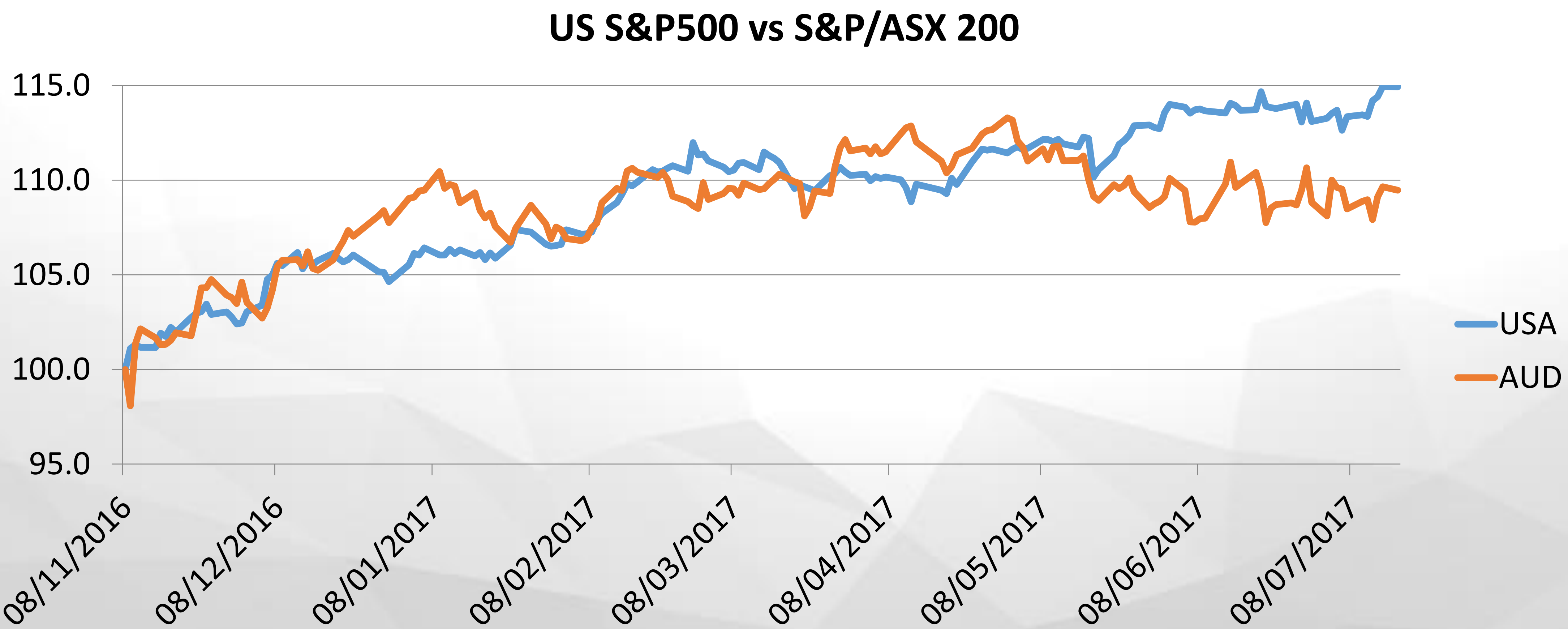
Switzer Asset Management

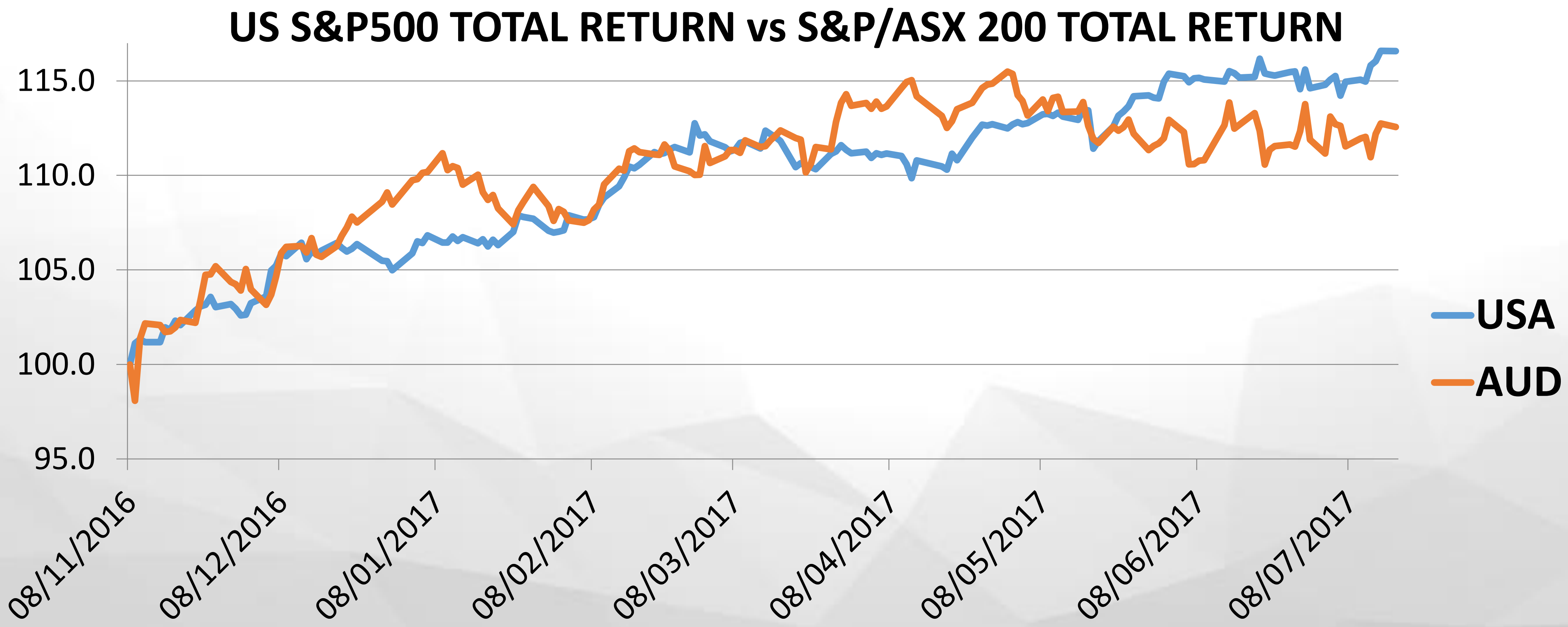
Why dividends, growth and franking matter in the world of Trumpflation

Paul Rickard

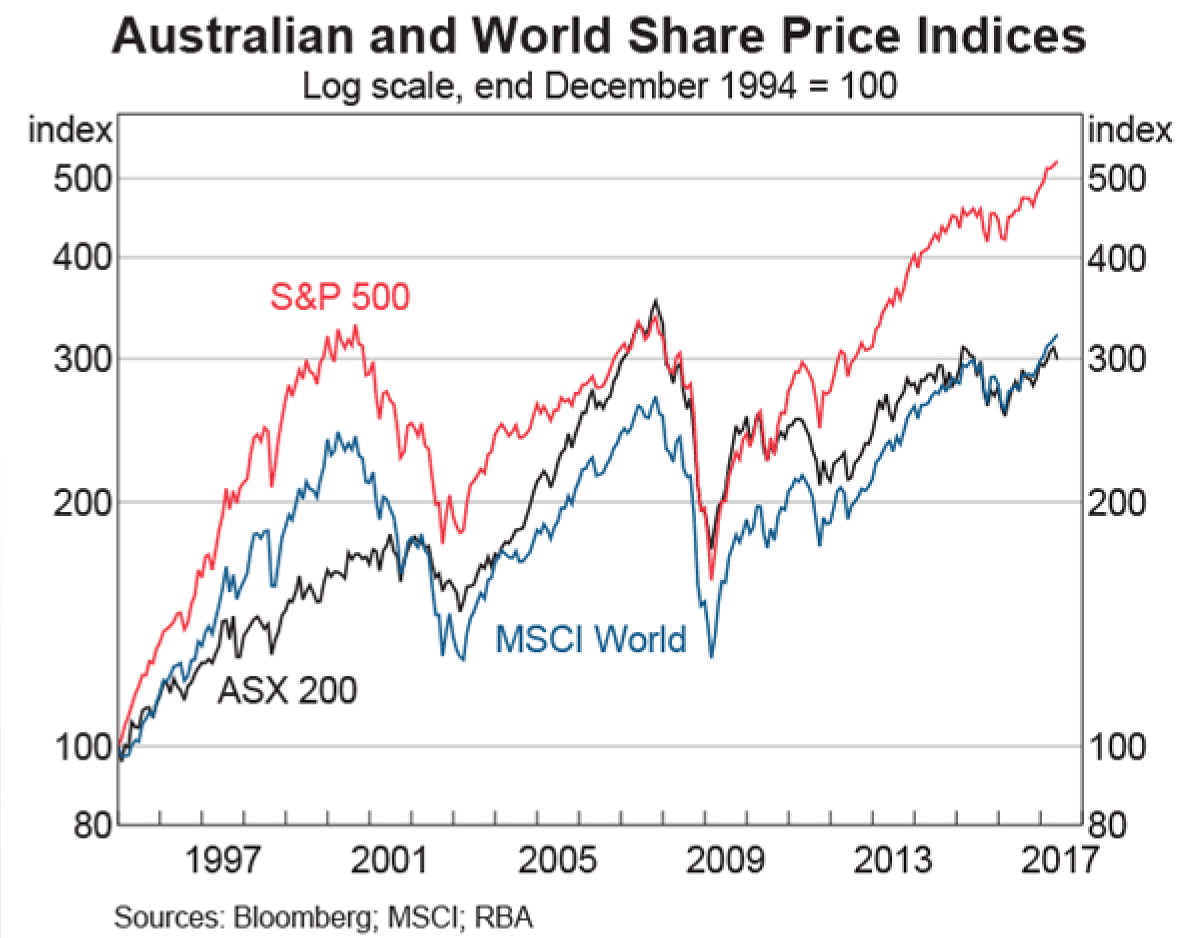
Trump has been great for US equities, okay for Oz



Better with dividends



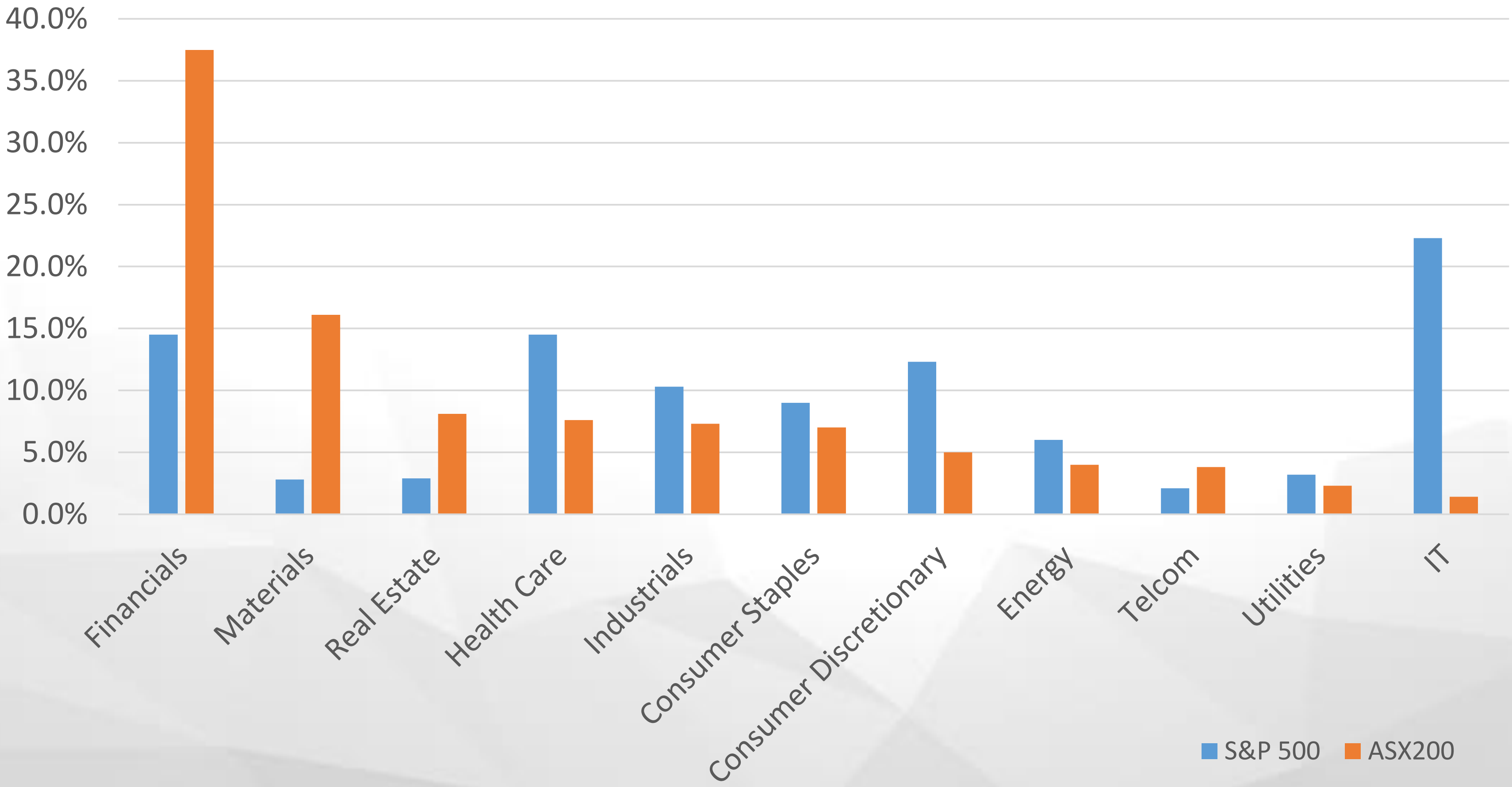
Australia for income, ROW for Growth



A world of opportunities…

- Long term outperformance
- Aussie market just 2% - 98% of opportunities outside Oz
- Overweight banks and resources, underweight IT

Sector weights - Australia vs USA



Based on GICS® sectors. The weightings for each sector of the index are rounded to the nearest tenth of a percent; therefor, the aggregate weights for the index may not equal 100%. As of 30 June, 2017

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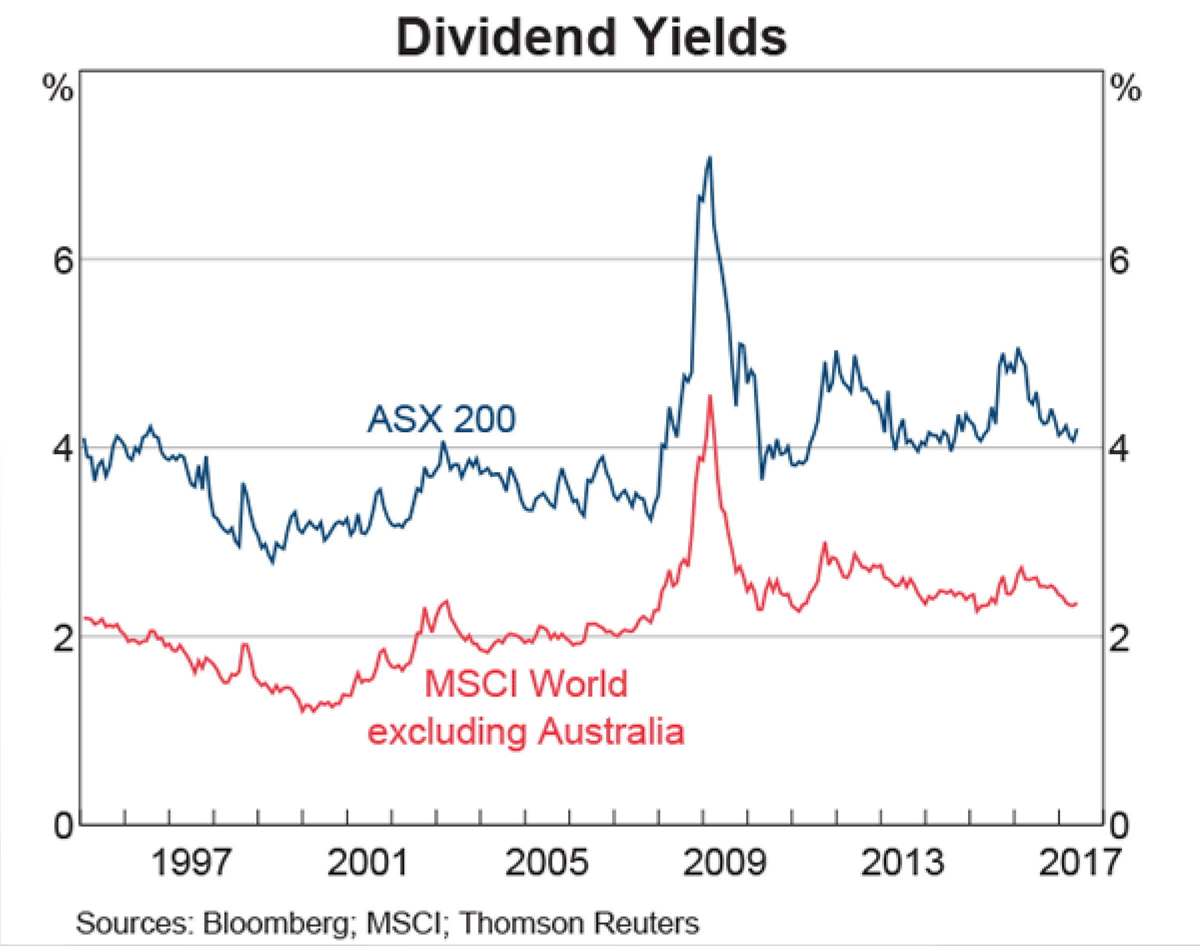
Aussie dividends are higher



And that’s before franking

- System is unique to Australia. Called dividend imputation – more colloquially referred to as “franking”
- Introduced by Paul Keating – aim was to prevent the double taxation of company profits
- Only companies that pay Australian company tax can frank their dividends
- Companies with overseas earnings, or carry forward tax losses, often can’t frank their dividends
- All taxpayers receive the same benefit

The power of dividend imputation – how does it work

- Both the dividend received in cash, and the franking or imputation credits (non cash) are included in your assessable income
- Tax is then assessed at your marginal rate
- Franking credits then act like a tax offset – and reduce the tax payable
- Unlike other tax offsets, if franking credits can't be used, they are refundable in cash

Example – dividend of $70 in cash, franking credits of $30

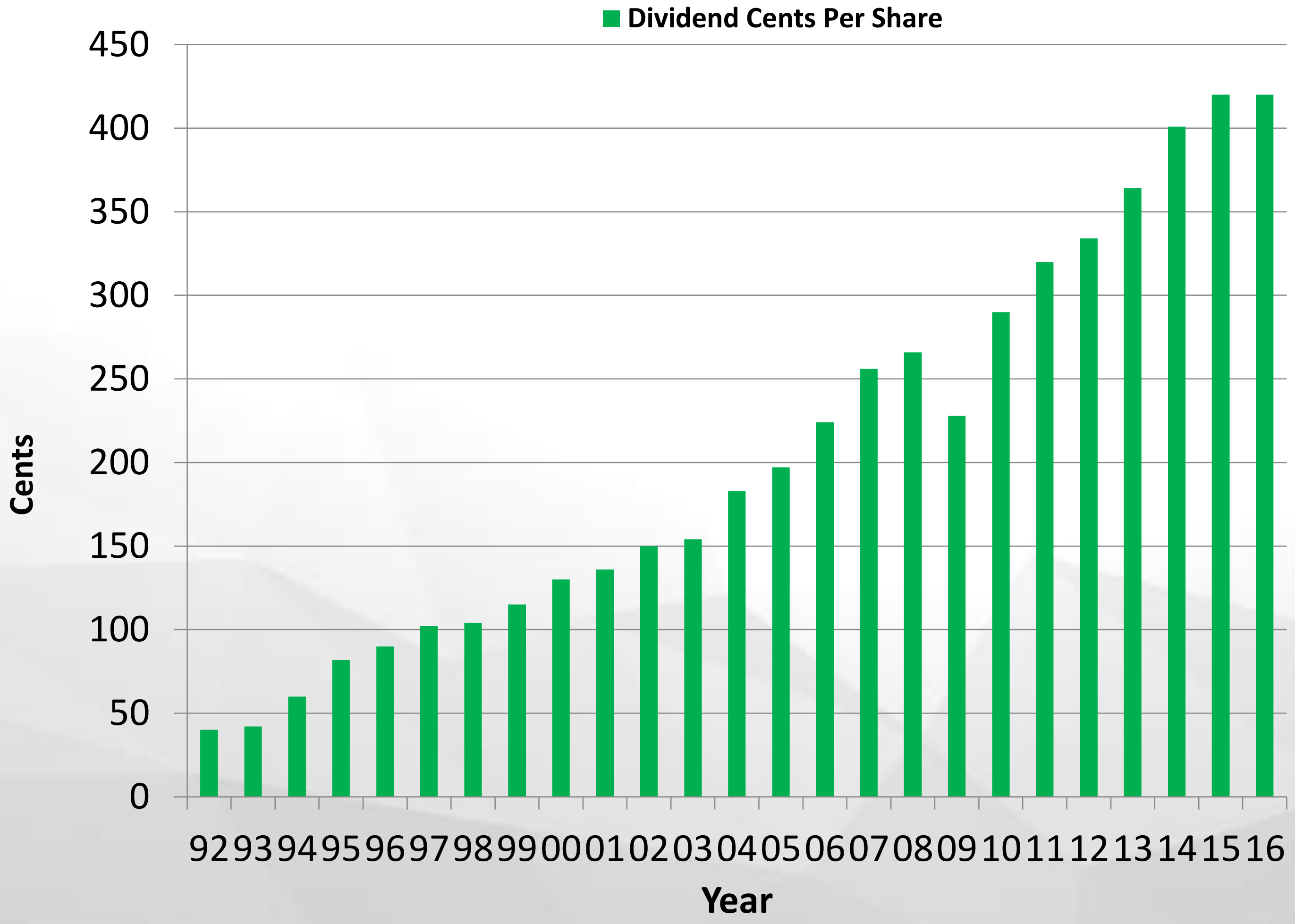
	47%	39%	30%	15%	0%
Dividend (cash)	$70	$70	$70	$70	$70
Franking Credits	$30	$30	$30	$30	$30
Assessable Income	$100	$100	$100	$100	$100
Tax Payable	$47	$39	$30	$15	$0
Less Franking Credits	$30	$30	$30	$30	$30
Net Tax Payable (cash)	$17	$9	$0	-$15	-$30
Tax Refund (cash)				$15	$30

Who benefits

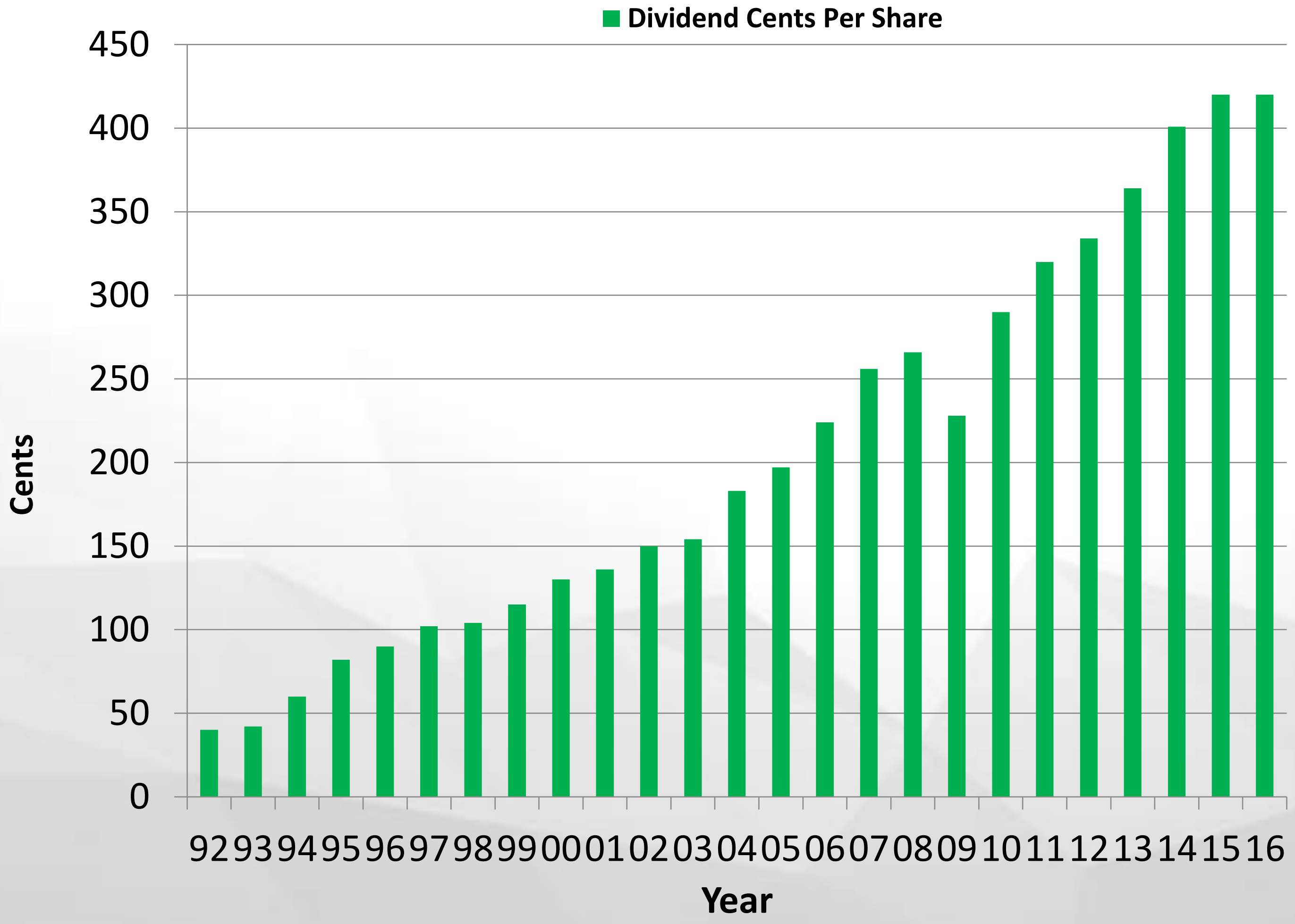
- All taxpayers who can use franking credits (Australian residents) benefit
- Gross up franked yields to compare with other investments (eg. interest, rent, unfranked dividends), or calculate after- tax yield
- After tax yields

Franked Yield	0% tax	15% tax	47% tax
3%	4.3%	3.6%	2.3%
4%	5.7%	4.9%	3.0%
5%	7.1%	6.1%	3.8%
6%	8.6%	7.3%	4.5%
7%	10.0%	8.5%	5.3%

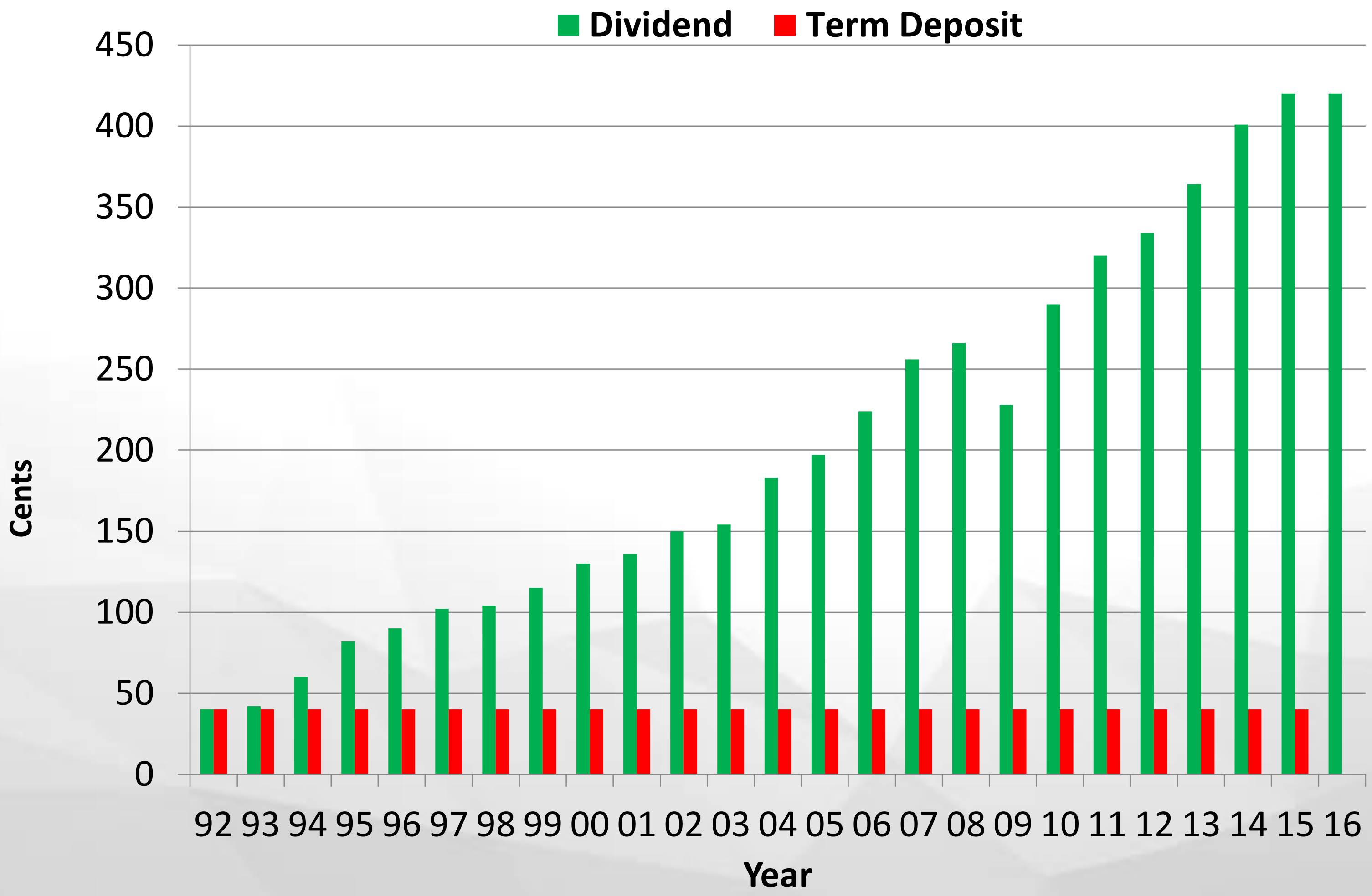
My favourite investment slide



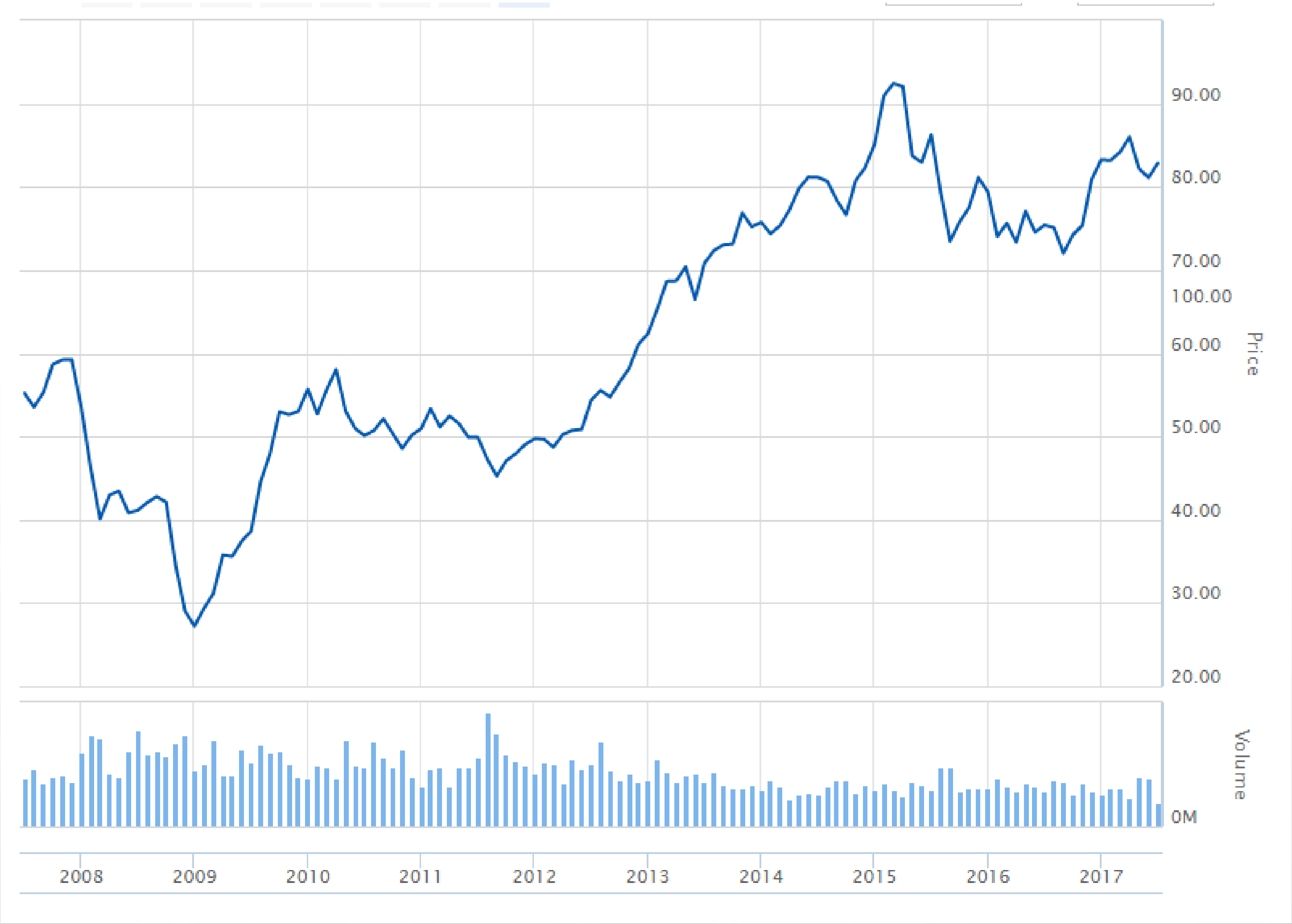
CBA Dividends



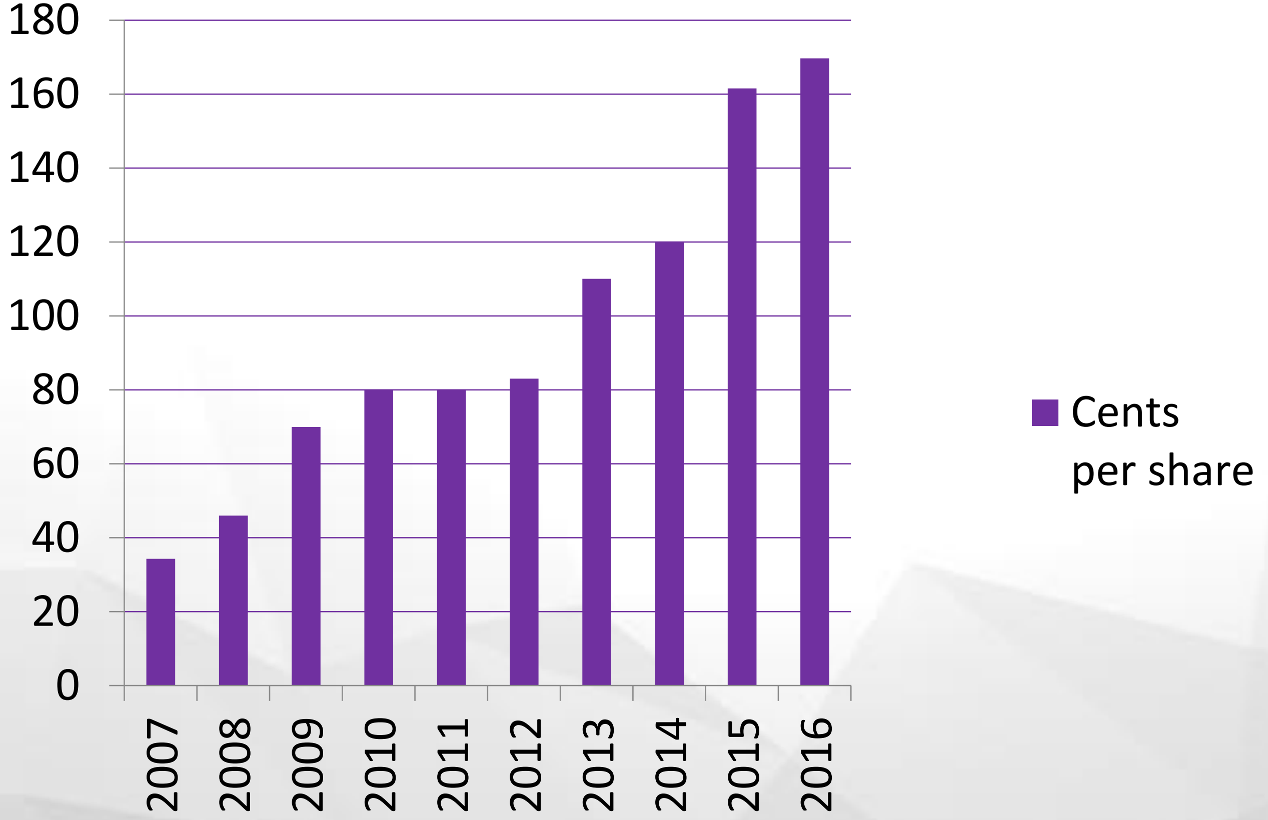
Dividends vs Term Deposits – increasing income!



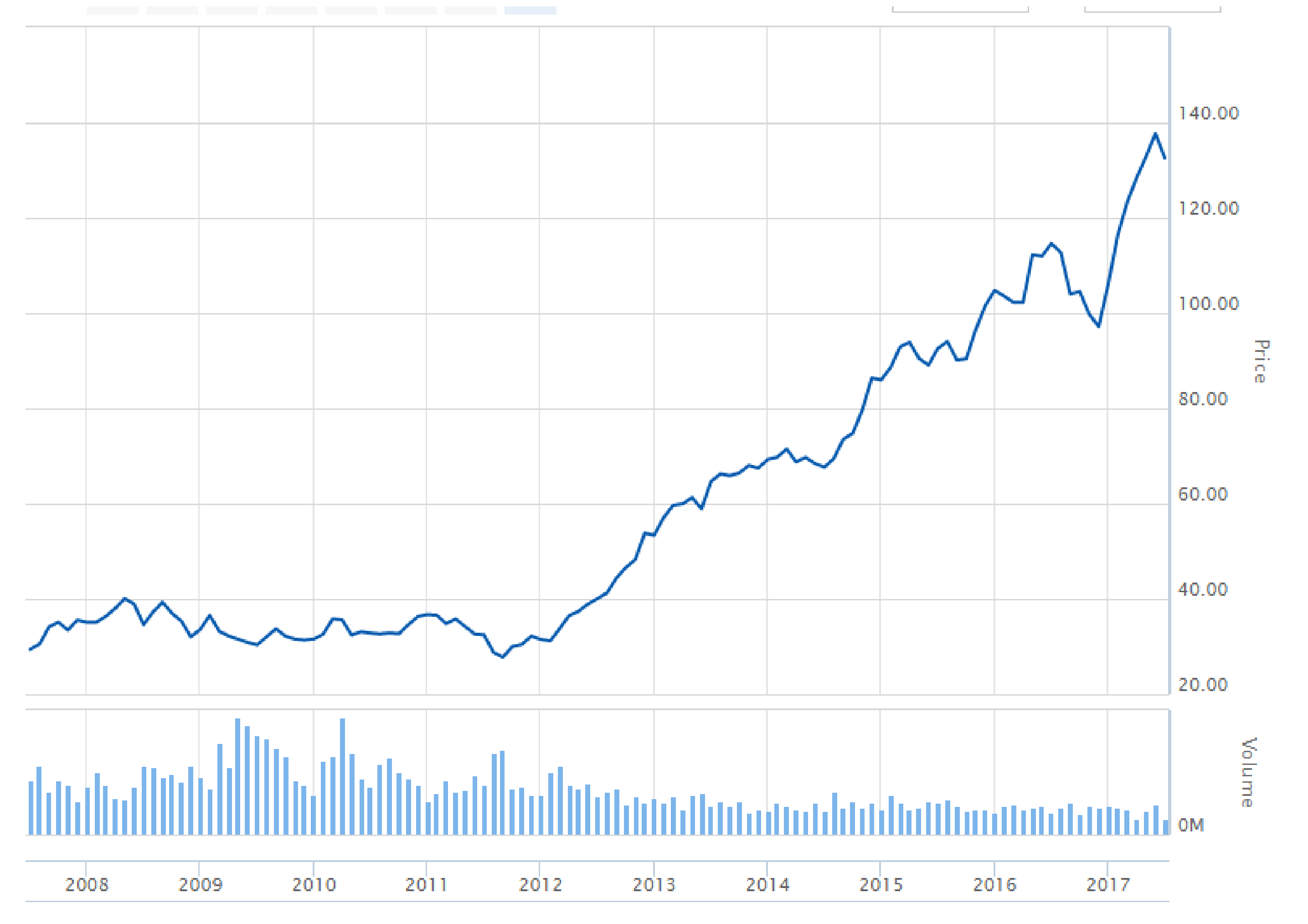
CBA Share Price



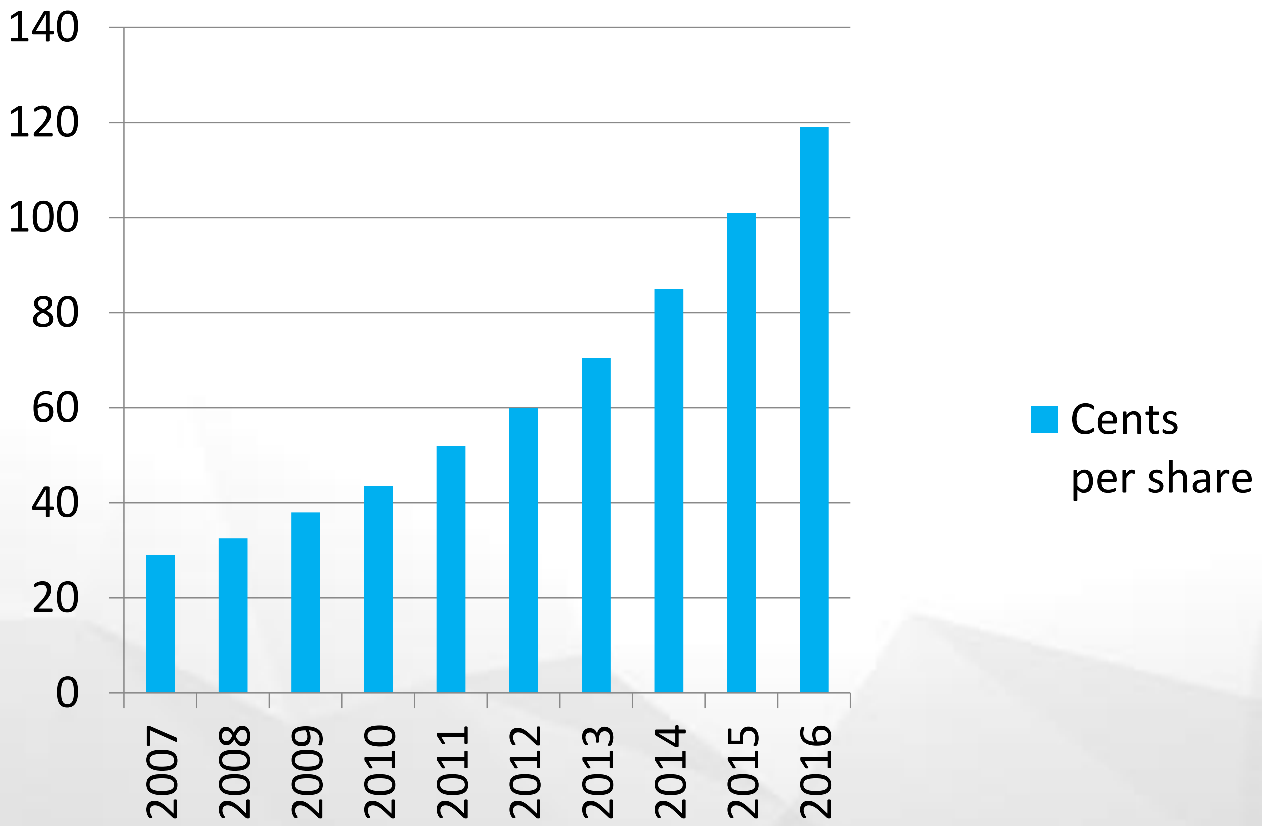
CSL Dividends



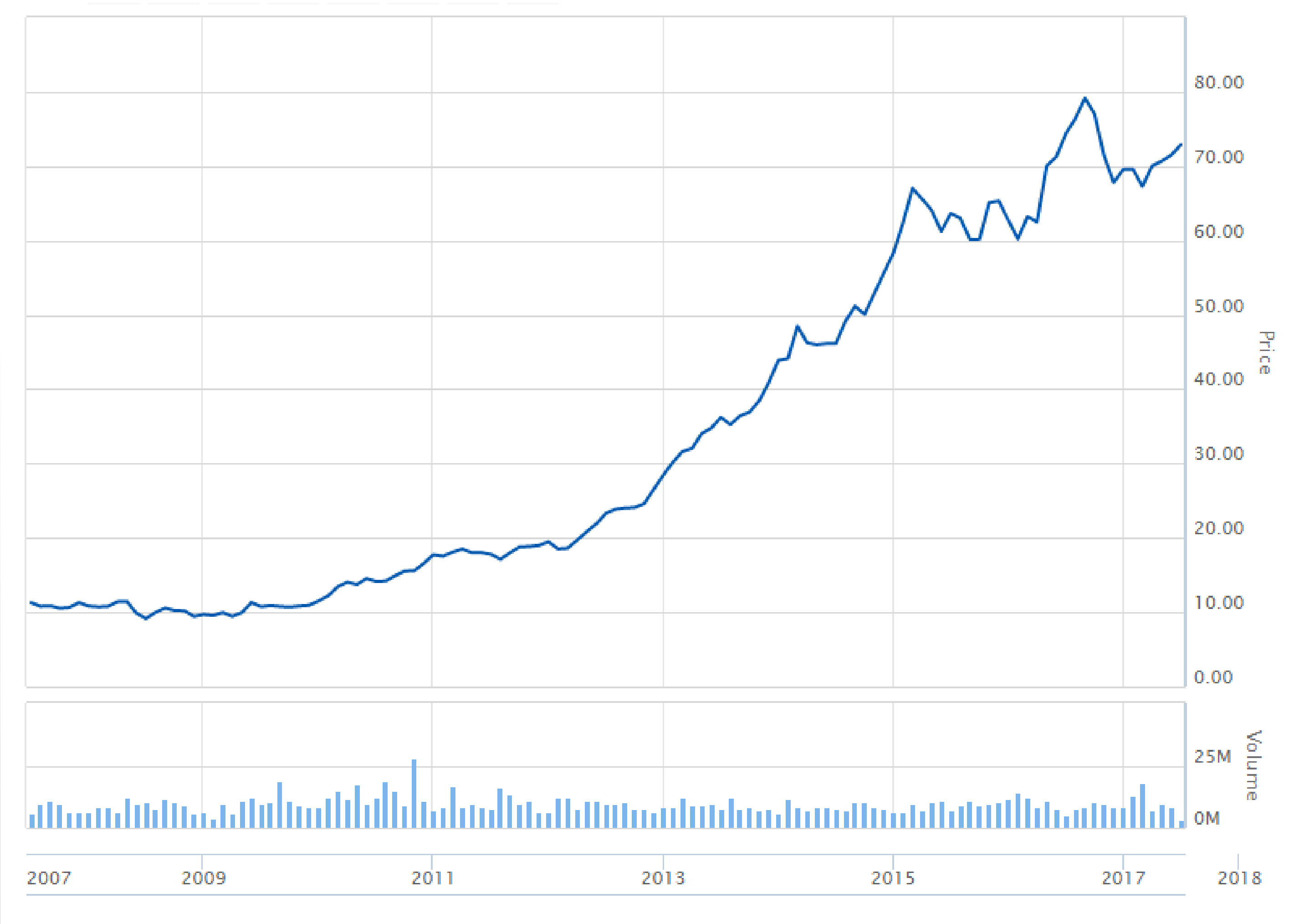
CSL Share Price



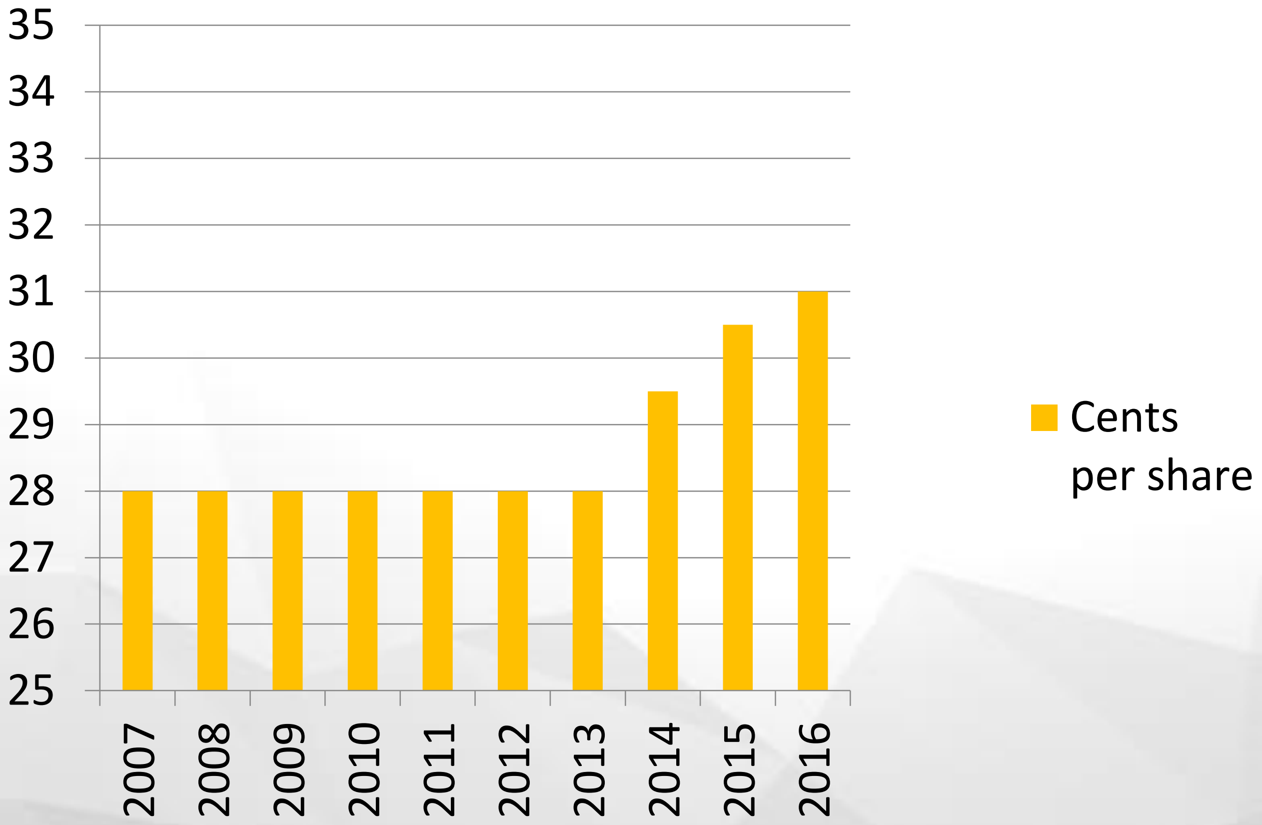
Ramsay Dividends (RHC)



Ramsay Share Price



Telstra dividends



Telstra Share Price

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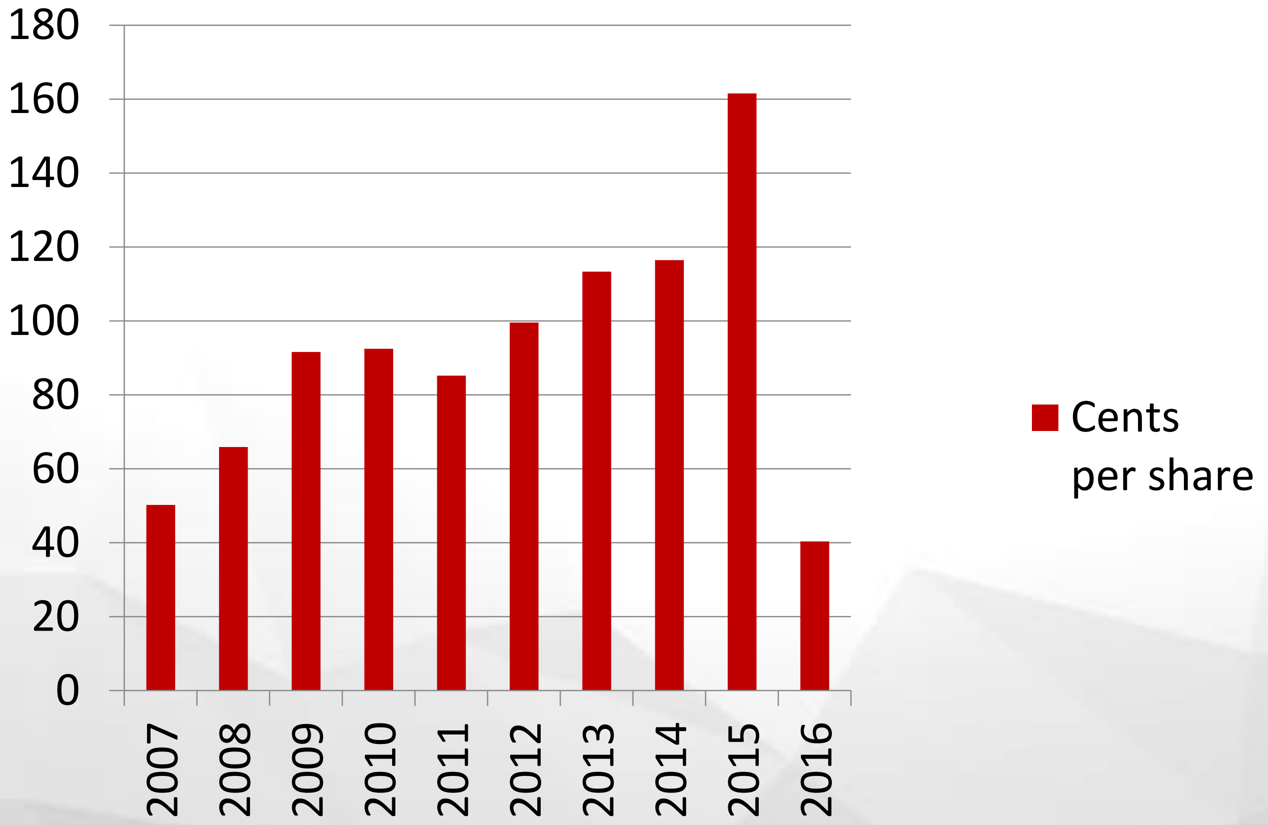
BHP Dividends



BHP Share Price

What is dividend growth

- Companies that have the capability to grow their dividends
- If a company can grow its earnings per share, pay higher dividends, then over the long term, the market will pay a higher price (growth)
- More relevant in Australia because taxation system favours payment of dividends
- Franking credits only valuable in hands of shareholders

Switzer Dividend Growth Fund

- Aims to provide investors with tax effective income and capital growth by investing in a core portfolio of blue-chip Australian shares
- Switzer Asset Management – Peter Switzer, Charlie Aitken, George Boubouras & Paul Rickard
- ASX quoted - SWTZ


Peter Switzer


Paul Rickard


George Boubouras


Charlie Aitken

Portfolio

- 30 to 50 stocks, drawn from the largest 200
- Dividend growth
- Attributes:
  - Sound balance sheets
  - Desirable dividend stream & capability to grow
  - Preference for franking
  - Moderate to low volatility
- Aussie shares 80% to 99%, Cash 1% to 20%
- Fund now $66m
- Learn more: 11.45am Verandah Room

Summary

- Australia for tax effective income, ROW for growth
- Dividend growth
- More info on SWTZ – go to www.switzerassetmanagement.com.au