Weekly Review

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– Issue – 10 Mar. 2017

John Addis asks the team to reflect on this reporting season's winners, losers and notable themes.

BY JOHN ADDIS • INTELLIGENT INVESTOR • 10 MARCH 2017

Reporting season wrap

In many areas of life, there's a striking difference between the general and the particular. This reporting season, for example, CommSec reported that 'all but 8 of the 142 companies produced a profit for the six months to December' and that 'excluding BHP, aggregate profits lifted by 37 per cent'.

Key Points

- ***Resources boom is back***
- ***Growth stocks punished for missing forecasts***
- ***It's not what you buy, but what you pay***

That will be of little consolation to shareholders in **OFX Group**, **GBST** and **iSentia**, which, since the release of its results, has suffered a halving of its share price, thereby producing a **notable opportunity**.

For investors at least, averages are no way to assess reporting season. To quote scientist Stephen Jay Gould, from an entirely different area of life (cancer survival stats), the **median isn't the message**. With that in mind, let's cover each major sector in turn, starting – where else – with the big banks.

James Carlisle, research director

Only **CBA** reported an interim result. **NAB** and **ANZ** reported first quarter trading updates and **Westpac** an update on capital, funding and asset quality. Taken together, the big four enjoyed a boost to interest income from the mortgage repricing undertaken last year, offset by the increase in wholesale and deposit funding costs that prompted it. That left net interest margins pretty flat.

The results were also supported by a fall in impairments from the jump this time last year, inspired by the likes of **Dick Smith** and **Slater & Gordon**. Overall, it was a solid set of results although, as expected, there wasn't much underlying growth. We'd need to see price falls of at least 15% before a major bank made it back onto our **Buy list** but existing shareholders might feel slightly more reassurance since these results.

Wealth managers endured more margin pressure, although **Perpetual** was able to offset this with a strong performance from its advisory business. **IOOF**, by contrast, saw its earnings fall 17% as the revenue impact of clients moving to cheaper platforms came ahead of the cost benefits. Management has tipped an improvement in margins in the second half. Both stocks were downgraded from Buy to Hold in the current reporting season, Perpetual due to a price rise, and IOOF due to a lowering of its price guide.

OFX has a March year-end but the early February profit warning was a cracker. The main reason for the profit shortfall is that the average value of exchanges from the Aussie dollar into the British pound has tumbled thanks to Brexit. But there are worrying signs that the Australian business is struggling to win new clients. This has been a problem ever since the company floated and – rather belatedly – we **downgraded the stock to Sell** and sold it from our portfolios. This is not the business we thought it was.

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Increased trading activity in shares and derivatives made up for lower listings in the first half for **ASX**, allowing revenues to creep up nearly 3% to $387m. Particularly notable was the performance of Centre Point, ASX's very own 'dark pool', which enjoys higher margins than the normal cash market and now accounts for 10% of total trading. The performance helped the stock past our $50 Buy price and it was therefore downgraded to Hold.

GBST's **disappointing result** was well flagged. The damage had already been done via the downgrade a fortnight earlier (see ***More project delays hit GBST***). Long-suffering shareholders might seek comfort in the last line of that review, which said 'the oligopolistic nature of the industry does mean that market growth could keep GBST and its competitors – notably Bravura – well fed; and, with one large contract win, earnings prospects could improve dramatically.' That's four fingers crossed.

Flight Centre, still on the Buy list, was also interesting. We've been half-expecting another profit downgrade, and evidently, so has the market. When it came at the **company's interim result**, an initial knee-jerk reaction prompted a 7% share price fall. But it ended the day down only 1.5%, again making the point about buying good companies in the face of short-term risks.

Two other notable points. First, there seems to be a more mature approach to cutting dividends – sticking to targeted ratios and letting them float up and down. Dividends were cut at IOOF (down 9%), **Woolworths** (down 23%) and Flight Centre (down 25%) without too much fuss. That's a welcome development.

Much is being made of companies using exotic measures of profit. People obviously crave a way of compare results easily but there just isn't a magic number that can fairly represent everything. Profit numbers always need dissecting and repackaging – management does it the way it thinks best and reconciles that to the statutory profit (also reported). It's up to investors to come up with their own numbers (which in many cases is the same as the company's, conspiracy theories notwithstanding).

Gaurav Sodhi, deputy research director

The resources boom is back. Everyone expected big profits and we got them with **BHP Billiton**, **Rio Tinto** and **Fortescue Metals**. Results from **South32** and **Whitehaven Coal** were very good, too, although BHP's, featuring excellent results from metallurgical coal and iron ore and better results from oil and gas were the best of the sector. The share price reactions were fairly mute, confirming that the market was expecting a good outcome.

In telecommunications, competition is intensifying. The sector is a great example of how rising demand doesn't always translate into higher profits as suppliers fight for market share. **Telstra** did well to raise margins in mobile and it's possible the negativity towards the company has gone too far, although it's still at least 15% from a price where we might **consider upgrading it**. **Amaysim**, though, is lifting margins through growing scale and remains a Buy.

One of the big themes this reporting season was the repricing of growth among mid-cap growth stocks. More businesses are being hit with mild downgrades, prompting often savage share price declines (see Jon's and Alex's comments below). Mostly, these were in good quality businesses with high valuations. This was a valuable reminder of what Howard Marks has said: 'Success in investing is not a function of what you buy; it's a function of what you pay.'

The standout disaster was iSentia. Not only was the result quite shocking, it also damaged management credibility and the strength of the core business is now in the spotlight. That's not an easy trifecta to achieve in one result so well done iSentia, and not just for creating a **buying opportunity** gratefully received.

As for **PMP's result**, it presented a great case for the merger with IPMG, now approved by the ACCC. The industry is in bad shape and without consolidation I'm not sure it would have a long-term future. PMP remains a Buy.

> **“ Long-term, we’re believers in the business model and the significant growth in demand for IVF.**

What else? Well, we’re fond of saying it’s hard to fiddle with cash flow but **Santos** has shown us a way: just stop spending cash on your fields. Reserves haven’t been replaced for about four years now, which means the company is shrinking. But the cash flow looks better.

In another form of trickery, **G8 Education** – a company I called ‘**a cynical exercise in multiple arbitrage**’ two years ago (and which still is) – and **Primary Health Care** (see below) continue to buy new assets and capitalise the bulk of the cost as goodwill on the balance sheet. If either come out with large ‘non-cash’ writeoffs, reported profits will have been overstated. Primary has been guilty of this for years and G8 is at risk of it, too.

Graham Witcomb, analyst

In healthcare, the difference in admissions between **Ramsay** and **Healthscope**’s private hospitals was interesting. This was a significantly better result for Ramsay, reflecting an aging population driving bed occupancy rates and capacity contraints at Healthscope.

Are we concerned by Healthscope’s lack of growth? No. We expect the company to claw back some of the lost market share over the next few years as capacity constraints resolve. Various expansion projects are expected to add almost 1,000 new beds and 50 theatres to Healthscope’s network – a 20% increase in capacity – between now and 2018, which should ensure faster revenue growth on completion than Ramsay’s local operations. The capacity constraints of this period are unlikely to persist.

Low growth has become the norm for general insurers and this results season drove home the point. All three big insurers are facing pricing pressure, increasing competition and low returns from their investment portfolios due to ongoing low interest rates.

Insurance Australlia Group was the standout, with an increase in premiums considerably better than management’s prior expectations. What’s more, it did better in home and motor insurance than **Suncorp**, suggesting IAG has been nipping away at Suncorp’s market share, despite already being the largest insurer. But in terms of opportunity, there’s not much on offer in this sector.

That’s less the case with IVF providers, which have had a tough six months given the overall IVF market has fallen 6%. **Virtus Health**, in particular, had a difficult time and lost market share to both **Monash IVF**’s premium Victorian clinics and Primary Health Care’s new bulk-billing IVF business in NSW and Victoria. Primary is now up and running in Queensland too, so we expect Virtus’s next result to reveal market share losses in that state as well. Long term, however, we’re believers in the business model and the significant growth in demand for IVF, which is but one reason why Virtus remains on our Buy List.

Another notable theme at the moment is the popularity of companies buying back shares. **QBE**, **CSL**, IAG, **Ansell**, **Qantas**, Telstra, Rio, and **Caltex** all have buybacks underway or recently completed. This could be a sign of complacency among management and investors, or that there is more cash sloshing around on company balance sheets than opportunities to invest it.

Jon Mills and Alex Hughes, analysts

The popularity of small caps led many large cap managers to enter the space over the past few years. But with many stocks being whacked after failing to meet high expectations, they’re now abandoning it.

This makes an important point about value investing being a two-step process. First, you’ve got to look at a company’s fundamentals. Then you’ve got to determine whether those fundamentals are already reflected in the share price. A great business can be a poor investment at too high a price while a poor business (like PMP, for example) can be a good investment at a cheap price.

Not too far removed from this is James Greenhalgh’s oft-repeated suggestion to ‘buy on the bad news, not the good’ and, especially with cyclicals like BHP or S32, to buy in stages

> **Ordinarily with deep value plays like this, by the time mainstream attention arrives it's too late but Runge appears to have a long runway ahead of it.**

to take advantage of further price falls. This can't be repeated often enough in our view, which is why we are repeating it.

Certainly, there were plenty of losers this reporting season. **Ardent Leisure** was a good example of chasing growth for growth's sake. Management has constantly bragged about the growth potential of Main Event but this business has few competitive advantages. The latest result made that clear. When the growth failed to materialise the share price was hammered. We were pleased to have **sold out in January**, before the 30% price fall.

We were much less pleased with **3P Learning**, which was a big disappointment. The growth in licences abroad was too slow, although the effect was offset by pulling the pricing power lever in Australia. Eventually, licence growth will need to be improved.

Learnosity remains a bit of a wildcard. The fact it survived the new chief executive's first writedowns may be a good indication that it's worth a bit more than the market is giving it credit for but research and development needs to be watched closely. All R&D is expensed, so estimating free cash flow is troublesome.

So, how should one approach the landmine-filled world of small company investing? It's less about hitting sixes and more about not getting bowled. This requires an understanding of the business and an assessment of the expectations other investors have about its performance. Lately, we have had more success at focusing on areas where expectations have been very pessimistic initially, and things haven't turned out as badly as expected. **Runge Pincock Minarco** was a standout in this regard.

When we first wrote about the company, commodities were in the doldrums and Runge was very much off the radar. Now it's on track for a very decent profit performance, with contributions from both its consulting and software businesses. The company delivered record revenue and returned to profit. It's even getting media attention.

Ordinarily with deep value plays like this, by the time mainstream attention arrives it's too late but Runge appears to have a long runway ahead of it. That's one reason we recently **increased our buy price**, although it remains a Hold.

Staff members may own securities mentioned in this article.

This pub owner's result was extremely dull, but we're not complaining.

BY JON MILLS • INTELLIGENT INVESTOR • 7 MARCH 2017

ALE Property: Interim result 2017

In a recent interview, ALE Property chief executive Andrew Wilkinson said he hoped to remain in his post until at least 2029. If he gets his wish, this would mark 26 years at the helm at this owner of 86 pubs leased to ALH, 75% owned by **Woolworths**.

Key Points

- ***Hotels remain materially under-rented***
- ***Continues to benefit from ALH-funded improvements***
- ***Well placed for upcoming limited rent review***

ALE PROPERTY GROUP (LEP) / HOLD

Price at review	Max. portfolio wght.	Business risk	Share price risk
$4.45	6%	Low	Low

BUY Below $3.50 — **HOLD** — **SELL** Above $5.00

$4.45

All things equal, we'd also like to hold ALE Property until then, for the same reasons why we first upgraded ALE Property to Buy in ***ALE Property: Down*** in one on 2 May 12 (Buy for Yield — $2.08).

ALE's pubs are rented to ALH on long-term 'triple net' leases (see Shoptalk), most of which run until 2028 with ALH having four options to extend of ten years each. ALE's rent grows by the rate of inflation each year (as measured by the consumer price index, or CPI). However, the leases are subject to a limited market rent review in 2018 – capped at 10% – and a full market rent review in 2028.

When ALE and ALH were spun out of Fosters Group in 2003, the terms of the leases meant they were substantially under-rented compared to market rates at the time. Since then, ALE's rental income has been increasing at inflation,

> ***Shoptalk: Triple net leases***
>
> Triple net leases means the tenant – ALH – rather than the landlord – ALE – pays just about every incidental expense related to the property—from insurance through to maintenance capital expenditure (maintaining the building and fixed assets to a high standard).

while the hotels' operating earnings (before depreciation, amortisation and rent) have risen on average by significantly more, boosting the underlying value of the properties.

This should help ALE get close to a 10% average increase in market rents at next year's limited market rent review and puts in very good shape for full market rent review a decade later.

Crows Nest Hotel

As well as paying to maintain the properties, ALH also has to get permission to expand or improve the properties – and then foot the bill. These improvements boost the underlying rental value of the properties and also revert to ALE upon expiry of the leases.

Over the years, ALH has made improvements to many of the the pubs, a recent example being the Crows Nest Hotel on Sydney's North Shore. ALH spent $8m completely refurbishing the property. We imagine that ALE didn't have to think long before giving its permission.

Table 1: ALE interim result 2017

SIX MONTHS TO DEC	2017	2016	+/(–) (%)
RENTAL INCOME ($M)	28.4	28.0	1.4
BORROWING EXPENSE ($M)	10.3	10.3	–
DISTRIBUTABLE PROFIT ($M)	15.1	14.8	2
DISTRIBUTION PER SHARE (C)	10.15*	9.90	3
GEARING (%) (SEE NOTE)	43.2	43.0	–
NTA PER SHARE ($)	2.66	2.53	5

*** Unfranked, fully tax deferred, ex date already past, no DRP**
Note: gearing = net debt / (total tangible assets less cash)

With the surrounding area becoming more up-market, the hotel is hoping to attract a higher-income demographic and more couples and families into the property for a meal and a drink. To that end, the previously unutilised first floor of the property has also been renovated for use by customers. It will also be helped by the opening of a nearby Metro rail station in 2024.

It makes sense for ALH to make the investment, because it will get a boost to operating earnings while its rent only grows at inflation for the net ten years (excepting the one-

> **There also remains the possibility of a one-time payout once the 2018 rent reviews are finalised.**

off increase capped at 10% in 2018). ALE, however, will benefit from higher rents after 2028, and higher resulting property values.

Low gearing

With its average **capitalisation rate** remaining steady at 5.53% compared to June 2016, ALE's net tangible assets (NTA) per share rose 5% over the year, to $2.66, and its gearing remains significantly below its target range of 50–55%. To return gearing closer to its intended target, the company is dipping into capital reserves to hike distributions. There also remains the possibility of a one-time payout once the 2018 rent reviews are finalised.

In our view, the best way to look at ALE is as almost like an inflation-protected bond with a couple of features – the rent reviews in 2018 and 2028 – in your favour. These options also offer some protection from rising long-term bond rates which would likely affect how much investors are willing to pay for 'bond proxies' like listed property trusts and commercial property in general.

So we'll raise a glass to Andrew Wilkinson should he remain as chief executive in 2029. Ideally, we'd also like to still own ALE in our ***Equity Income Portfolio*** then. However, that of course will depend on what happens with its share price – and the value of its underlying assets and distribution yield – between now and then. **HOLD**.

Note: The Intelligent Investor ***Equity Income Portfolio*** *owns shares in ALE Property. You can find out about investing directly in Intelligent Investor and InvestSMART portfolios by* ***clicking here****.*

Staff members may own securities mentioned in this article.

With a fantastic business model, plus the possibility of industry dominance, Aconex deserves a spot on your watchlist.

BY ALEX HUGHES • INTELLIGENT INVESTOR • 6 MARCH 2017

Is Aconex the Xero of the construction sector?

When it comes to construction cost overruns, Australia is a world leader. Our supremacy dates back to 1957 and the construction of ***The Sydney Opera House***. Initially budgeted at $7m, it was completed a decade later for a total cost of $100m. This was a gold medal blowout yet to be beaten in percentage terms.

Key Points

- ***High-quality business***
- ***Could be 'winner takes all'***
- ***One for the watch list***

ACONEX (ACX) / NO VIEW

Price at review	Max. portfolio wght.	Business risk	Share price risk
$3.58	N/A	High	High

Latterly, Australia's **liquefied natural gas projects**, with estimated blowouts of $50bn over the past decade, have garnered attention. But these are in no way unusual. According to McKinsey and the Boston Consulting Group, 80% of projects run over budget and 20% run over time. Cost overruns appear to be hardwired into the DNA of contracting, which is where Aconex comes in.

Aconex sells software that helps construction companies manage complex projects. In a global industry known for its meagre use of software, this hints at its potential. That little snippet has not gone unnoticed. After listing in late 2014 at $1.90 a share, Aconex's share price quickly shot up to $8.29. With a market capitalisation of $1.6bn at that point and just $123m of revenue in the 2016 financial year (and only a sliver of earnings), it was impossible to recommend it.

Now, after disappointing sales growth in the first half of the 2017 financial year and a share price that has fallen 57% to $3.55, it's time for a deeper look. As Seneca said, 'luck is what happens when preparation meets opportunity'.

How it works

Aconex acts as a centralised hub for vital project information. Before collaboration software, tender documents, project models and variations would flow sporadically between the project's participants. If you tried to draw the web of activity on paper, it might look like the work of an intoxicated spider. On large projects especially, involving thousands of documents, the risk of error is huge.

Aconex's cloud-based platform allows project documents to be stored, altered and shared in one place. From tendering right through to project completion, it makes collaboration and management easier. In return for its service, the company charges subscription fees to the project manager, which could be an asset owner like ExxonMobil or a construction company like CIMIC.

Table 1: Segment revenue ($m)

	2013	2014	2015	2016	1H17	1H17 VS. 1H16 (%)
ANZ	26.7	31.5	36.2	48.8	25.3	5.8
EMEA	11.6	16.5	21.3	39.9	32.9	110.9
AMERICAS	7.9	10.7	14.7	21.3	11.6	15.6
ASIA	6.1	7.6	10.2	13.3	7.3	18.2

The fees are determined by the project's size and complexity but average less than 0.1% of the project's value. Customers have two options: a subscription that spans the length of the project (42 months on average) or a discounted enterprise arrangement over a longer duration. Aconex has an extensive customer list of over 1,000 organisations, including heavyweights across Australia and New Zealand, Europe and the Americas.

After choosing Aconex, the project manager arranges for its subcontractors to use the platform. These non-paying users dwarf paying users by many multiples. The model effectively transforms paying customers into a sales channel, much as Xero successfully incentivises its accountant customers to

> **“Most importantly, Aconex might come to dominate the industry, because everyone benefits if all contractors are on the same platform.**

sign up their small business clients. The strategy is highly scalable as each new customer brings many more potential customers. That's a big tick.

There is a quirk to its business model. Aconex usually bills a year in advance, taking cash up front and recording a large deferred revenue liability – to the tune of $90m as at December 2016 – which is reduced as revenue is recognised over the course of the year. That's great for cash flow but is unique for a SAAS business where regular payments are more common.

All the ingredients

Aconex has all the ingredients of an exceptional business. Its software is a low cost/high value proposition for its clients and the subscription fee is tiny when compared to the efficiencies it delivers. The company is well positioned to become critical to its customers, delivering stickiness and, down the track, pricing power.

A good indicator is the conversion of customers from per project to enterprise subscriptions. In Australia and New Zealand (ANZ), the company's most mature market, enterprise subscriptions now represent 65% of total revenue, although it has some way to go in the other regions.

Most importantly, Aconex might come to dominate the industry, because everyone benefits if all contractors are on the same platform. But there's a long way to go yet. Markets like the US and Europe are more competitive, but the company has a clear lead in ANZ, counting 80% of the top 50 contractors as users at the time of its IPO.

The potential for a winner-takes-all outcome is a rare opportunity which should mean that market share should be prioritised over profits. Unfortunately, Aconex seems to be increasingly concerned with near-term earnings, even cutting research and development and marketing to protect profits as sales slowed in the most recent half-year.

Valuation: the hard part

So, this is a very good business with substantial potential. Valuing it is the tricky part. On traditional yardsticks like EV/EBITDA and price-earnings ratios – trading on 40 and 91 times respectively - it doesn't make sense. Current growth doesn't appear to underpin these high multiples either, with growth in its leading ANZ division falling to just 6% this half.

Software-as-a-service (SAAS) investors often place greater emphasis on revenue multiples. Some consider an enterprise value below five times revenue to be cheap. For context, Xero trades at around eight times. On that basis, with its multiple of 3.5, Aconex might seem interesting. That's about the same level as its initial listing and also a multiple similar to its purchase of European competitor Conject (2.7x). By way of comparison, private US competitor Procore is said to have priced its last funding round at a whopping 18 times revenue.

Metrics like this aren't really our game. Valuing a business based on sales alone is straying into a very grey area in our book. All the sales in the world count for nothing if it doesn't eventually translate into free cash flow that can be returned or reinvested.

The best approach is probably to work down, by estimating the potential market size, market shares and margins – and doing this for a range of assumptions. The ANZ division is already dominant with a leading market share of 21%, embedded customers and margins of 70%. If we assume it eventually dominates the market, it could be worth more than the total market capitalisation today. The trouble is that long range forecasts are inherently unreliable, and assuming industry dominance is quite an assumption. Like the Hubble telescope, move an inch and you end up in another galaxy.

So we'd want to see a wide margin of safety between the current price and any valuation. That's not there at the moment, so Aconex is worth a spot on your watch list but no more.

We're not going to initiate formal coverage on the stock and, with such a wide range of potential outcomes, we're also not going to tie ourselves to a particular price guide. However, as Seneca recommends, we're now prepared. All that remains is to wait for the opportunity.

Staff members may own securities mentioned in this article.

New contracts make for happy doctors but they're a mixed blessing for shareholders.

BY GRAHAM WITCOMB • INTELLIGENT INVESTOR • 8 MARCH 2017

Primary's doctors take the knife to margins

Employing people could be such a breeze – if it weren't for those pesky employment contracts. Doctors, in particular, can be a troublesome bunch to work with. A highly–skilled workforce, combined with a shortage of general practitioners, means there's rarely any doubt who brings the biceps to the negotiating table.

Key Points

- ***New contracts reduce capital needs and margins***
- ***Pathology division gaining market share***
- ***New regulation may boost pathology profits***

PRIMARY HEALTH CARE (PRY) / AVOID

Price at review	Max. portfolio wght.	Business risk	Share price risk
$3.33	N/A	High	High–Med

Primary Health Care is finding this out the hard way. The company's bulk-billing medical centres have had a hard time recruiting new GPs in recent years, which has prompted Primary to change the way it recruits and pays doctors.

Previously, the company took a one-size-fits-all approach. New doctors would sell their practice for a large upfront payment – typically several hundred thousand dollars – and get a cut of future revenue in exchange for a five-year contract.

To make working at Primary more attractive, the company now offers a higher share of billings, more flexibility and fewer contracted hours. In addition to the new contracts, Primary has also increased its investment in nursing, support services and other initiatives aimed at improving the satisfaction of its GPs.

'Capital light'

The problem is that bulk-billing is low margin work with plenty of fixed costs. Giving doctors a larger share of the top line has a disproportionate effect on the division's profitability. In the six months to December, a 5% fall in revenue for the medical centres division led to a 36% fall in underlying earnings before interest and tax (EBIT).

What's more, fewer contracted hours for GPs effectively means that Primary will need to hire even more doctors to make up for the shortfall.

Still, there are things to like about the new contracts: in exchange for fewer working hours and a higher share of revenue, the doctors receive a lower upfront payment. This makes the new model 'capital light', and that bodes well for free cash flow because less money needs to be reinvested into the business for it to grow.

Indeed, capital expenditure at the company's medical centres division halved in the six months to December. As a result, free cash flow rose 8%, despite the 36% drop in operating profit.

So far, the strategy seems to be working. Though the recruitment of new doctors is still sluggish, management noted a 35% increase in GP retention at November's annual meeting. In the six months to December, 70% of GPs signed a 'no upfront payment' contract.

Primary isn't out of the woods, but, all in all, we like the new contracts' effect on retention and free cash flow more than we dislike the hit to margins.

Pathology holds up

Total group revenues rose 2% to $809m and underlying EBIT was down 13% to $82m, excluding the sale of Primary's MedicalDirector healthcare software business. Underlying net profit and earnings per share both fell 15%, to $42m and 8.0 cents respectively.

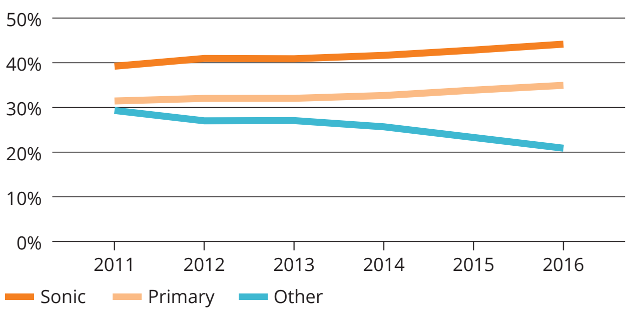
Primary's pathology division – 62% of total revenue – performed admirably, with revenue rising 5% to $505m, partly due to a small acquisition and expanded specialty testing. This was ahead of the overall pathology market's growth of 3%, suggesting Primary increased its market share.

Interestingly, larger competitor **Sonic Healthcare** also increased revenue for its Australian pathology operations a hearty 7% in the first half of the financial year.

> **Given the regulatory uncertainty and potential for rising interest rates to bite into profits, we continue to recommend you AVOID.**

Sonic and Primary have been gradually expanding their market share at the expense of smaller operators, which have been progressively priced out of the market (see Chart 1). The two companies now account for 81% of the pathology industry's total revenue and Primary accounts for around a third.

Chart 1: Pathology industry market share



Source: IBISWorld

Unfortunately, that rising market share comes at a cost. Primary's revenue growth didn't benefit the pathology division's EBIT, which rose a modest 1% due to higher collection infrastructure costs.

As **we've explained previously**, the deregulation of pathology collection centres in 2010 led to a huge land grab. Sonic and Primary, with their powerful **economies of scale** and cost advantages, could afford much higher rents for collection centres than smaller operators and a bidding war began.

Collection centre rents have risen dramatically in recent years and this period was no exception. Primary opened 60 new collection centres this half, which is the main reason EBIT couldn't keep up with revenue growth.

Government to the rescue?

Brighter days may lie ahead, however. The Government **intends to introduce new provisions** to collection centre regulation that would mean medical practices can only charge 'fair market value' rents based on local commercial rates.

The new rules, which are due to take effect on 1 July 2017, are like forcing an overenthusiastic crowd to sit down at a football match – no-one wants to be the first because they won't see a thing, but if everyone sits down together they will all be better off. Likewise, the bidding war for collection centres has left Primary and Sonic standing on tippy-toe; being forced to take a breather is a good thing.

Rising rent costs have been a significant drag on profit growth – a 38% rise in revenue since 2010 has only resulted in a 15% rise in operating profit. The benefit of the proposed rent caps to Primary can't be overstated. A large proportion of the company's operating costs are fixed testing equipment so, combined with rents anchored by commercial rates, the company's **operating leverage** will be even greater. All things being equal, we expect Primary's pathology margins to be materially higher a few years from now under the Government's proposed changes.

Table 1: PRY interim result

SIX MONTHS TO DEC	2016	2015	+/– (%)
REVENUE ($M)	809	794	2
EBIT ($M)	81.9	93.9	(13)
UNDERLYING NPAT ($M)	41.9	49.1	(15)
UNDERLYING EPS (C)	8.0	9.4	(15)
INTERIM DIVIDEND	4.8 cents, down 14%, fully franked ex date 17 March		

Turning to the balance sheet, it was good to see Primary direct some of its cash flow – along with a few asset sales and a $45m one-off tax refund – towards paying down its huge debt pile. However, the company still has $821m of net debt – down from $1.1bn this time last year – which is the main reason we think it's wise to avoid the stock. Interest payments may have fallen $8m this period, but they still consume more than a third of EBIT.

Management expects underlying net profit of $92m–102m in the 2017 financial year, which puts the stock on a forward price-earnings ratio of about 18. Given the regulatory uncertainty and potential for rising interest rates to bite into profits, we continue to recommend you **AVOID**.

Staff members may own securities mentioned in this article.

With a new board and management team, Bellamy's has begun work on an 18 month turnaround plan. Can it succeed?

BY PHILIP BISH • INTELLIGENT INVESTOR • 6 MARCH 2017

Bellamy's: Interim result 2017

The turmoil at Bellamy's reached a crescendo at last week's extraordinary general meeting (EGM).

Key Points

- ***18 month turnaround plan***
- ***New board and management***
- ***But many risks remain***

BELLAMY'S AUSTRALIA (BAL) / COVERAGE CEASED

Price at review	Max. portfolio wght.	Business risk	Share price risk
$4.26	N/A	N/A	N/A

Following the earlier departure of former chief executive Laura McBain, after the EGM, Bellamy's casualty list now includes chairman Rob Woolley and three independent directors.

Although Jan Cameron, the leader of the rebel group, failed to gain her own board seat, she was successful in getting two of her nominees, Chan Wai-Chan and Rodd Peters, elected. Rodd Peters was also made chairman while a couple of board positions remain unfilled.

Disappointing result

After the dramas of the EGM and multiple profit warnings – see ***The lid is lifted on Bellamy's*** and ***Bellamy's gets creamed*** – Bellamy's interim result was a subdued affair.

Revenue for the half was $118.3m (see Table 1), a 13% increase on the prior corresponding period. However, both underlying earnings before interest and tax (EBIT) and NPAT fell, by 3%, to $18.7m and $13.3m, respectively. These figures exclude $8.6m of 'one-off' costs, including inventory writedowns and legal, accounting and restructuring costs.

New CEO Andrew Cohen detailed a new strategy that included re-engaging the 'daigou' – Chinese shoppers who buy infant formula from Australian supermarkets and onsell it to locals in China – and a push into a further 1,600 physical stores in China.

The company is also focussed on reducing operating costs. Staff have already been cut while management is reviewing its supply chains to reduce ingredient costs.

And with the benefit of its amended contract with Fonterra (see ***The lid is lifted on Bellamy's***), Bellamy's hopes to see positive free cash flow by the middle of the current half.

Heavy discounting over

This goal should be helped by margins rising due to the company reducing discounting. Bellamy's was forced to discount after it over-estimated demand and competitors in China reduced prices to clear their excess inventory arising from changes in Chinese regulations.

To help prevent similar problems going forward, Bellamy's is now selling through just one Chinese reseller, who will manage the sell-through of inventory to other sellers and thereby keep closer control of inventory levels.

The oversupply and heavy discounting in China also had the unintended consequence of reducing margins on the Bellamy's brand for daigou, which forced them to switch to other brands such as **A2 Milk** (see ***Will A2 Milk turn sour?***).

Table 1: Bellamy's interim result 2017

SIX MONTHS TO 31 DEC	2016	2015	+/(–) (%)
REVENUE ($M)	118.3	105.1	13
UNDERLYING EBIT ($M)	18.7	19.2	(3)
UNDERLYING NPAT ($M)	13.3	13.7	(3)
UNDERLYING EPS (C)	13.8	14.2	(3)

Having learned from its mistake, Bellamy's now hopes the daigou will be willing to switch back to its products.

The other major issue for Bellamy's is its 'take or pay' agreement with supplier Fonterra. Bellamy's is required to pay shortfall payments of around $12m per year as a result of not meeting the minimum volumes required under this contract.

For Bellamy's to return to growth, this payment needs to be reduced or eliminated, and the only way to do this is to significantly increase sales.

> **Sales will need to increase considerably to enable inventory reduction and cash generation.**

Ceasing coverage

The company confirmed its full-year guidance, with underlying EBIT expected to be around $21m and underlying NPAT around $12m.

Despite the company's turnaround strategy appearing sensible, there are still many risks, with the stability of the board and management team one of the main ones.

Moreover, sales will need to increase considerably to enable inventory reduction and cash generation.

The company will have its work cut out for it on this front, with competition in its key Chinese market expected to remain strong. It also still needs to obtain registration with the China Food and Drug Administration so it can trade in China from 2018 onwards.

As such, we don't see a margin of safety anywhere near current prices. So, while we'll keep an eye on the stock, for now we're formally **CEASING COVERAGE**.

Staff members may own securities mentioned in this article.

This fund manager's bet on Asia will come good eventually, but it has other problems.

BY JAMES CARLISLE • INTELLIGENT INVESTOR • 9 MARCH 2017

Platinum ploughs a lonely furrow

You have to dig deep into Platinum Asset Management's recent performance figures to find much to shout about, but Kerr Neilson was happy to do so at the company's latest interim results presentation.

Key Points

- ***Big bet against US***
- ***FUM and/or margins under pressure***
- ***Not cheap; risks to the downside***

PLATINUM ASSET MANAGEMENT (PTM) / HOLD

Price at review	Max. portfolio wght.	Business risk	Share price risk
$5.16	5%	Med–High	High

BUY Below $4.30 — HOLD — SELL Above $7.00

$5.16

The Platinum International Fund (PIF) has underperformed its benchmark recently, he noted (over the past one, three and five years in fact), but that's almost entirely due to the big bet it has taken against the US.

The performance of Platinum's more regionally focussed funds has been much better and, Neilson asserts, demonstrates that 'there is something very right with our stock picking'. He noted that the Platinum's European fund was 'probably as good as you'll find anywhere, probably in the top one or two per cent' and that he was 'yet to find a Japanese Fund that has done better'.

He has a point. The European and Japan funds have outperformed over all time periods and by high single digits (and more) at the longer end. The trouble is that between them they have barely a tenth of the money invested in the PIF (about $10bn at 31 Jan). Evidently investors also want Platinum to pick markets for them, and here's where it's been falling short recently.

Conviction

Neilson regularly explains the basis for his bet on Asia against the US in Platinum's quarterly reports. The nub of it is that the US and China contribute roughly the same to global GDP – about 16% each – yet the US represents about 54% of the MSCI Global Index (the PIF's benchmark), while China represents about 3%. China is also growing a lot more quickly, as of course are its Asian neighbours.

So the MSCI isn't a great marker for the world's economic output and, Neilson would say, it makes little sense to follow it. He takes it further, though, because of a conviction that Asia offers better long-term growth prospects and better stock valuations. As a result, the PIF had a net exposure to the US of only 5% at the end of December, in stark contrast to all its peers, which are huddled around the MSCI's 54% weighting.

With the US returning about 19% a year over the past five years, compared to 16% for the MSCI, 15% for Japan, 12% for Europe and 11% for Asia, it is indeed remarkable that the PIF's underweight position has only cost it 2% a year in performance.

Table 1: PTM interim result

SIX MONTHS TO DEC ($M)	2016	2015	+/(–) (%)
AVERAGE FUM ($BN)	23.2	27.2	(15)
FEES	155	178	(13)
OTHER INCOME	5	12	(62)
TOTAL REVENUE	160	191	(16)
EXPENSES	23	25	(6)
EBIT	136	166	(18)
PBT	138	168	(18)
NET PROFIT	98	120	(19)
EPS (C)	16.3	20.4	(20)
INTERIM DIVIDEND	15c, fully franked, down 6%, ex date already passed		

As some point the relative performance of these regions will turn and Platinum's performance will leave its peers for dust. We even have some sympathy with the view that long term it's better to be in Asia than the US.

Margin pressures

However, Platinum has other problems. The first is the combination of its high fees and weak distribution resulting in fund outflows. Its base fee margin of 1.32% in the December half compares to 0.68% for **Magellan Financial Group** and 0.72% for **Perpetual**. That reflects its predominately retail

> **We admire Platinum's approach to investing, and even have sympathy for its stoic approach to managing its business, but a couple of years of falling profits mean it's not obviously cheap.**

client base and strong reputation and it no doubt results in some impressive financials – but these days it has the ring of a **Woolworths** about it.

If margins are kept that high, without any extra value, then customers will walk away. Just lately the value hasn't been delivered (at least not visibly) and a net $1.7bn flowed out the door in the December half, after $1.9bn in the June half. Including market movements, that left funds under management (FUM) down 15% compared to December 2015, at $23.2bn.

Table 2: Impact of lower FUM/margin

$M	FY 2017 (F)	FUM DOWN 25%	FEE MARGIN DOWN TO 1%	FUM DOWN 25%; FEE MARGIN DOWN TO 1%
FUM ($BN)	23.0	17.3	23.0	17.3
MARGIN (%)	1.33	1.33	1.00	1.00
FEES	306	229	230	173
OTHER INC.	6	6	6	6
TOTAL REV.	312	235	236	179
EXPENSES	62	62	62	62
EBIT	250	173	174	117
NET INTEREST	3	3	3	3
PBT	253	176	177	120
NET PROFIT	177	123	124	84
SHARES	587	587	587	587
EPS (C)	30	21	21	14
PER	17	24	24	36

At the moment, the outflows are concentrated on the institutional side, with the higher margin retail investors remaining loyal. But this is a double-edged sword: retail investors might be 'stickier' but eventually the decisions are left to their beneficiaries. Given its confidence in what it's doing, Platinum's main response to all this is to work on its investment team – making sure it has the right people, training and resources to continue its stock-picking performance – and to make greater efforts to explain what it's doing to the financial community. At the moment, though, it seems to be falling on deaf ears.

Long game

We're very happy to play the long game at *Intelligent Investor* and all this would be fine if it didn't run headlong into the other problem, which is Kerr Neilson's own advancing years. I should note that I'm someone that decided not to invest in Warren Buffett's Berkshire Hathaway 21 years ago (when he first offered the B shares) because I figured he was getting on a bit – at 65.

Neilson is now perhaps a year or two ahead of that (his exact age is hard to pin down) and no doubt he enjoys investing just as Buffett does. We've a hunch he'll at least want to hang around until he's won that bet on Asia – but if he left soon after, winning the bet might be small consolation to shareholders.

The performance of the European and Japanese funds shows that Platinum has some real stock-picking depth, but perceptions matter as much as reality and Kerr Neilson is undoubtedly a crucial part of Platinum's brand. Without him, there will be even greater pressure on funds and margins.

You can put this into numbers by knocking down the FUM, or the fee margin, or both. Knocking either down by a quarter, for example, would reduce earnings by about a third due to operational gearing; knocking both down by a quarter would cut earnings by more than half (see Table 2).

Of course this is all hypothetical, but it gives an idea of the sensitivity of Platinum's earnings to these two crucial factors, which between them are under some pressure. It also puts some context around the current price-earnings ratio of 17 (based on forecast 2017 earnings); you don't have to do much to FUM or fee margins to get this up into the 20s.

We admire Platinum's approach to investing, and even have sympathy for its stoic approach to managing its business, but a couple of years of falling profits mean it's not obviously cheap and downside risks probably outweigh the upside potential. An improvement in the relative performance of Asian markets would no doubt give it a boost, but we don't try to pick whole markets. We're reducing our Buy price from $5 to $4.30, our Sell price from $8 to $7 and our maximum recommended portfolio weighting from 6% to 5%. **HOLD**.

Staff members may own securities mentioned in this article.

The shopping centre developer and owner has reported a messy result as it reshuffles its portfolio.

BY HUGH DIVE • INTELLIGENT INVESTOR • 10 MARCH 2017

Westfield Corporation: Result 2016

Global shopping centre operator and developer Westfield Corporation has announced a messy full-year result due to asset sales and developments, although overall profits and distributions were in line with expectations.

WESTFIELD CORPORATION (WFD) / HOLD

Price at review	Max. portfolio wght.	Business risk	Share price risk
$8.55	7%	Medium	Medium

BUY Below $6.00 | **HOLD** | **SELL** Above $12.00

$8.55

The final distribution of 12.55 US cents per share makes a total of 25.10 US cents for the year, in line with guidance and flat in US dollar terms, although Australian shareholders saw a decline due to the increase in the Australian dollar.

Highlights over the year and the increase in net assets per share, as developments become revenue-producing assets.

Flagship focus

Westfield's flagship shopping mall assets performed well with operating income up 4%. However, overall income growth was dragged down by regional malls, which saw growth of only 0.6%, despite a recovering US economy.

Over the past few years Westfield has been reshuffling its portfolio of shopping centres, selling regional or second-tier US centres and reinvesting the proceeds in developing flagship malls such as the World Trade Centre in New York and Westfield London.

This thinking is that generic or second-tier shopping malls face increasing competition from online retailing. Flagship malls, on the other hand, will be supported by major brands, like Apple or Ralph Lauren, that want an opportunity to showcase to their products – perhaps before customers make an online purchase.

The benefits of this strategy can be seen in post-Brexit sales at Westfield London remaining solid against a background of weak British consumer confidence.

Long-term growth

In the short term, assets sales reduce the rental income available to pay distributions, as shareholder's capital is recycled from income-earning regional malls into development projects. As a result, Westfield is forecasting an increase of only 1.6% in distributions for 2017, to 25.5 US cents.

Table 1: Westfield Corp 2016 result

YEAR TO DEC (US$M)	2016	2015	+/(–) (%)
RENTAL INCOME	795	748	6
BORROWING EXP.	64	68	(6)
DISTRIBUTABLE PROFIT	700	673	4
DPS (AUST. CENTS)*	32.7	34.7	(6)
GEARING (%)**	38.4	31.5	n/a
NTA PER SHARE ($)	4.60	4.48	3

*** Final dividend of 16.43 Aust. cents unfranked, ex date passed**

**** Gearing = net debt/(net debt plus net assets)**

Ultimately, though, shareholders will own better quality assets and should earn higher rental income as a result. At the moment Westfield has $3.7 billion in shopping centre projects under construction in California, New York and London and it is no doubt on the lookout for new opportunities. **HOLD.**

Staff members may own securities mentioned in this article.

The ACCC has expressed some concerns with their proposed merger, but the issues seem addressable.

BY GRAHAM WITCOMB • INTELLIGENT INVESTOR • 9 MARCH 2017

Tatts and Tabcorp get ACCC preliminary view

The Australian Competition and Consumer Commission (ACCC) has released its preliminary view on the **proposed merger of Tatts and Tabcorp**, and cited several **concerns that the merger would reduce competition**.

TATTS GROUP (TTS) / HOLD

Price at review	Max. portfolio wght.	BUY	HOLD	SELL
$4.20	5%	Below $3.75	$4.20	Above $6.50

TABCORP HOLDINGS (TAH) / HOLD

Price at review	Max. portfolio wght.	BUY	HOLD	SELL
$4.45	5%	Below $3.00	$4.45	Above $5.50

The only substantial issue was that the merger would lessen competition in the supply of monitoring and repair services to gaming venues in Queensland. However, Tabcorp has committed to selling its Odyssey Gaming Services business, which should ease the ACCC's fears. A few other minor issues were raised, and Tabcorp and Tatts have made various proposals to the ACCC as ways to address its concerns.

The ACCC noted that there is little competitive overlap when it comes to the companies' main bricks and mortar wagering operations due to exclusive licences being held state by state.

'It is our view that strong competition between online corporate bookmakers will mean recreational customers will continue to have choice about where to place their bets,' said ACCC chairman Rod Sims.

Both companies' boards of directors support the merger but it still needs to pass various regulatory conditions, as well as get approval from the courts and each state's wagering and lottery regulator. The ACCC has invited further submissions and will announce its final decision on 4 May 2017.

Tabcorp and Tatts currently sport forward price-earnings ratios of around 20 and 25 respectively. We'll keep you posted as things develop. For both companies, we're sticking with **HOLD**.

Staff members may own securities mentioned in this article.

A focus on small cap stocks caused some pain this reporting season but it has served us well over the long term.

BY JAMES CARLISLE • INTELLIGENT INVESTOR • 7 MARCH 2017

Portfolio update for February

The past few months have been hard for all active managers hunting around for value in the middle or lower tiers of the market, because the stocks making the biggest strides have been the ones right at the top – led by the big banks.

So far this financial year – up to the end of February – the ASX's 20 biggest stocks returned about 15% on average, while the ASX Small Ordinaries (comprising stocks ranked from 101 to 300) returned only 5%. So if you've been light on the big stocks, then life has been hard.

We've been light on the big stocks, particularly in our **Growth Portfolio**, which doesn't hold any of the big banks, although it does have holdings in **BHP Billiton** (ASX:BHP), **South32** (ASX:S32) and **Macquarie Group** (ASX:MQG). That's a big part of the reason our **Growth Portfolio** has only managed a return of 6% in the financial year so far, compared to the All Ordinaries' return of 11%.

On top of its holdings in BHP, South32 and Macquarie Group, our **Equity Income Portfolio** has a 6% stake in **Commonwealth Bank** (ASX:CBA) and a 4% holding in **Westpac** (ASX:WBC). Strange as it may seem, that still leaves it way behind the big banks' weighting in the All Ords of 24%, but it does offer some protection when they go on a charge. As a result, our Equity Income Portfolio has done OK, almost keeping up with the All Ords this financial year, with a return just below 11%.

Of course this is all just part of the to and fro of the markets. In the 2016 financial year, smaller stocks did much better, which is partly why both our portfolios are still ahead since they started accepting money for investment on 1 July 2015, with the Growth Portfolio returning 11% a year and the Equity Income Portfolio returning 14% a year compared to 8% for the All Ords.

Mistakes, we've made a few

In February, though, our performance was affected by a couple of plain old mistakes, which left the Growth Portfolio down 2% for the month and the Equity Income Portfolio flat, compared to the gain of 2% for the All Ords.

The most expensive mistake was with **GBST Holdings** (ASX:GBT), the financial software provider which lost 27% after warning – again – that projects in its UK business had been delayed and that this would affect this year's profits. Project delays are part and parcel with this kind of business, but they're happening more frequently and more is having to be spent on improving the software than we'd expected. This makes the business less scaleable than we'd anticipated. Overall, we still think it has strong prospects, but it's increasingly clear that we paid too much for it.

Our other major mistake was **OFX Group** (ASX:OFX) (the international payments specialist, formerly known as OzForex), which didn't report a result (it has a March year-end), but nevertheless warned on profits. The main problem cited was that the average value of transactions exchanges from the Aussie dollar into the British pound has tumbled due to the latter's fall following Brexit.

However, there are also some worrying signs that the Australian business is struggling to win new clients. This has been a problem ever since the company floated and – rather belatedly – we pulled the pin and sold the holding at $1.43, crystalising a 14% loss for the month and a 21% loss since the portfolio opened for investment.

The **Growth Portfolio** was also affected by a couple of fallers not held by the **Equity Income Portfolio**, being **Hansen** (ASX:HSN) and amaysim (ASX:AYS), which lost 16% and 10% despite posting solid results. We continue to have confidence in both stocks.

On the plus side

Leading the gainers for both portfolios was **Crown** (ASX:CWN), which continues its recovery following the **arrest of staff members in China**, as the market reassesses its original gloomy forecast for the impact. The stock returned 11% in February and is now up 18% since we topped up our holding after the arrests.

> **We'll just carry on hunting for value, and naturally enough that will often take us away from the biggest – and most researched – stocks on the market.**

Perpetual (ASX:PPT) also gained 11% for the month, as the market took note of a better than expected **interim result**, particularly from its advisory business.

Seek (ASX:SEK) rose 9% in the month, helped by news that it was part of a consortium planning to take over its Chinese-based Zhaopin business (in which it already holds 62%). Fellow online classifieds business **Carsales** (ASX:CAR) gained 7% after a **strong interim result** confirmed our view expressed last November, that its **core business is performing well**, despite some splutters from its financing and international operations.

We won't try to predict where the banks or other large companies will go in coming months or years. We'll just carry on hunting for value, and naturally enough that will often take us away from the biggest – and most researched – stocks on the market.

We're happy with that and over the long term it has served us well, with our Growth and Equity Income portfolios returning 10% and 13% a year, respectively, since they were established as model portfolios back in 2001, compared to the 8% return of the All Ords.

Wellard

Has any member of the team considered looking into the live cattle exporter Wellard of late? Whilst there appears to be a lot of debt in the business it appears it is serviceable when gross margin is in the mid teens. The covenants breaches appear to be an issue with the DSCR requirement of the working capital facilities working in combination with a business expanding its shipping fleet via sale/leaseback facilities. The vessel facility covenant breaches in 1H17 appear due to very low gross margins in 1H17. The 1H17 results reporting shows gross margin of 6% appears to be an anomaly from a combination of high cattle prices, unseasonal weather, herd rebuilding and management seeking to maintain market share. Cattle prices seems to be declining since the 1H17 results were announced and may be a positive sign that gross margins would be going through a mean reverting process in 2H17. I have concerns about corporate governance given the ongoing related party transactions between the residual Wellard business retained by the founder/CEO and the listed entity however the introduction of Homes a Court and others to the share register might help to alay these concerns longer term. Would be interested in your thoughts. It's possible that the share price has now risen to a point since the results announcement, and changes in the share register, to no longer provide a margin of safety for new shareholders.

10 Mar 2017 – **Alex Hughes**: I had a brief look at Wellards a while back to see if it was an interesting asset play, but concluded that it was just too hairy. It appears to be a very difficult business subject to the ebb and flow of a number of external forces. At its current P/B, you may be compensated for this, but it looks very tight given its debt load.

You could be right about gross margin mean reversion. I encourage you to consider the downside risk if this is not the case. The best ideas don't kill you when you are wrong.

Buffett's quote springs to mind for me: "I don't look to jump over 7-foot bars. I look for 1-foot bars that I can step over".

When to sell

What are your views on when to admit defeat and tap out of a bad investment? GBST and AGI, I'm looking at you when I say that. If, in your price guide, a stock sits below or well below what was paid for it, is that a cue to take your medicine and move on? I realise that in the case of both of those examples they have been retained in the Growth Portfolio for now, but at what point do you see the original investment case as being flawed and just cop the loss? Do you think either of those investments can be rehabilitated?

9 Mar 2017 – **James Carlisle**: Great question and you'll find some answers in **this video** where we look at the profit warnings from Virtus Health, GBST and OFX Group and explain why the first got an upgrade to Buy, the second was downgraded to Hold and the third was cut to Sell.

The key to it is to decide if your investment case is broken – and that has nothing (in and of itself) to do with the share price. However, if you decide that the reason you invested has been shown to be invalid (in the case of OFX Group, the absence of rapid new client growth), then it's probably time to move on. Good investment opportunities are comparatively rare, so it's unlikely that if one is shot, then it morphs into a different one that's somehow just as good. If you think the investment case has changed, but you're still hanging on, then it's probably a sign that your psychology is making you do it.

Some find it cathartic in these situations to sell the stock, so that you can make a more unbiased assessment of whether you would in fact, of all the opportunities out there, choose to hang onto it.

(Note that none of this should be construed as personal advice.)

How much money needed to buy stocks?

As a beginner, how much money do I need to buy stocks?

4 Mar 2017 – **Alex Hughes**: Firstly, congratulations on getting started.

The short answer is that there isn't any optimal amount. The amount of time in the market is one of the most important factors to investing success, so starting as soon as possible is often the best way to go. Once you start, keep saving as much as possible so you can build your investable capital over time.

If you plan to buy index or managed funds, the minimums will be set by the provider. These funds often have low minimums ($1,000-5,000 is common for example) so it's easy to get started.

With direct investing, the bare minimum is $500 per trade with online brokers like Commsec. It is best to have a diverse portfolio when starting out, to help to minimise the impact of mistakes. If we assume you will create a 20 stock portfolio (you probably don't want to go much below this) you will need at least $10,000.

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