



RON HODGE
CEO & MANAGING DIRECTOR

JAMES CARLISLE
HEAD OF RESEARCH

ALEX HUGHES
SENIOR ANALYST

Actionable Ideas for Diversification

Staying the course is not easy



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.



Our Mission

To help our members grow and protect their wealth by providing affordable investment advice and solutions.

WHY?

Because we believe people should be able to take control of their financial future. And it shouldn't be hard or expensive to do so.

HOW?

By providing innovative tools, research and advice that people can trust, empowering them to make better investing decisions.





Affordable Investment Advice

S.M.A.R.T



Assets on Platform

Total Value of Shares: **\$9,181,836,626**

Total Value of Funds: **\$2,068,419,538**

Total Value of Cash: **\$1,956,991,914**

Total Value of Property: **\$7,883,347,175**



My Health Check

MAY 2017

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





My Health Check

OCTOBER 2017

Summary



Portfolio Health Check

Score is out of a possible 100%

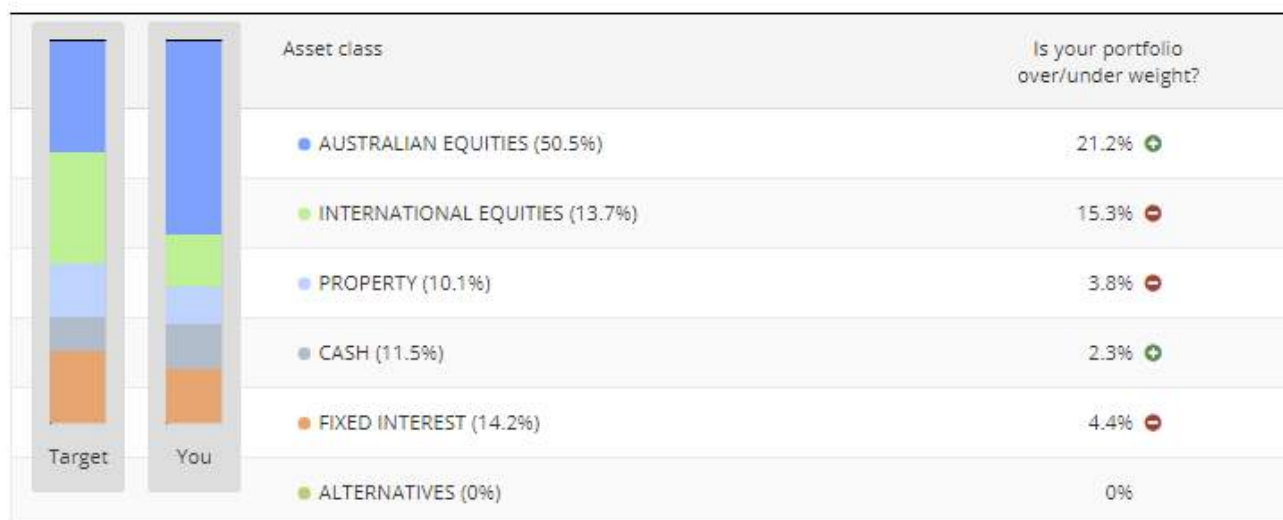
Your investment goal for this portfolio is

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Try another investment goal

7 - 10 YEARS : GROWTH

Investment Comparison





Diversification Still Misunderstood



37%

of Australian adults or **6.9 million** people hold investments that are available through a financial exchange

31%

of Australian adults hold shares

7%

of Australian adults hold derivatives

11%

hold other on-exchange investments



Diversification is still not well understood

46%

of investors claim to be diversified and hold **2.7** investment products

40%

of investors say they do not have diversified portfolios. They hold **1.6** investment products

15%

of investors don't know if they're diversified

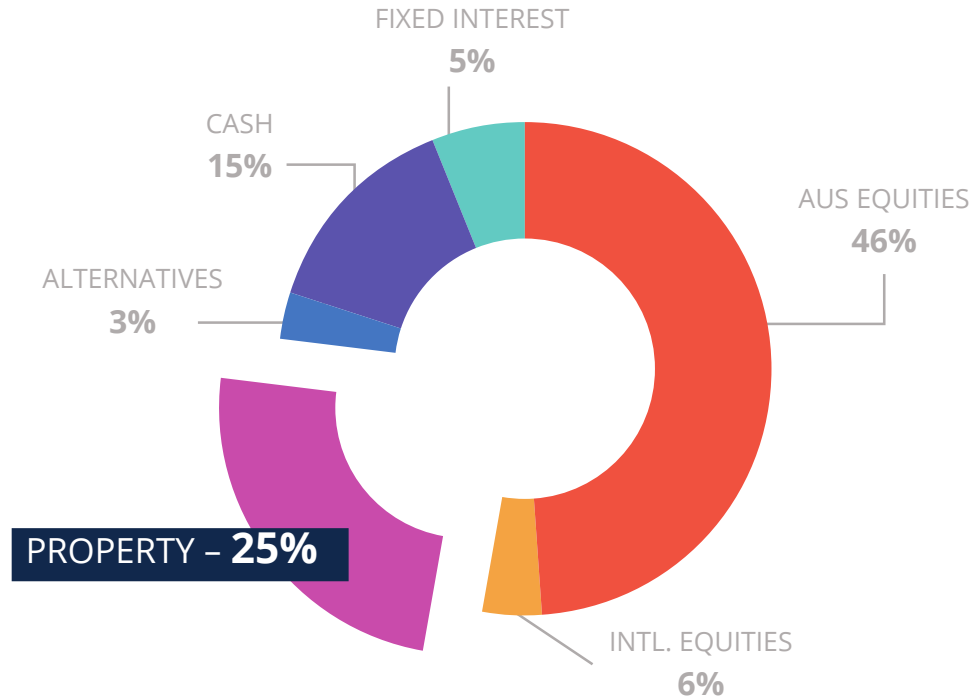
75%

of share owners hold only Australian shares



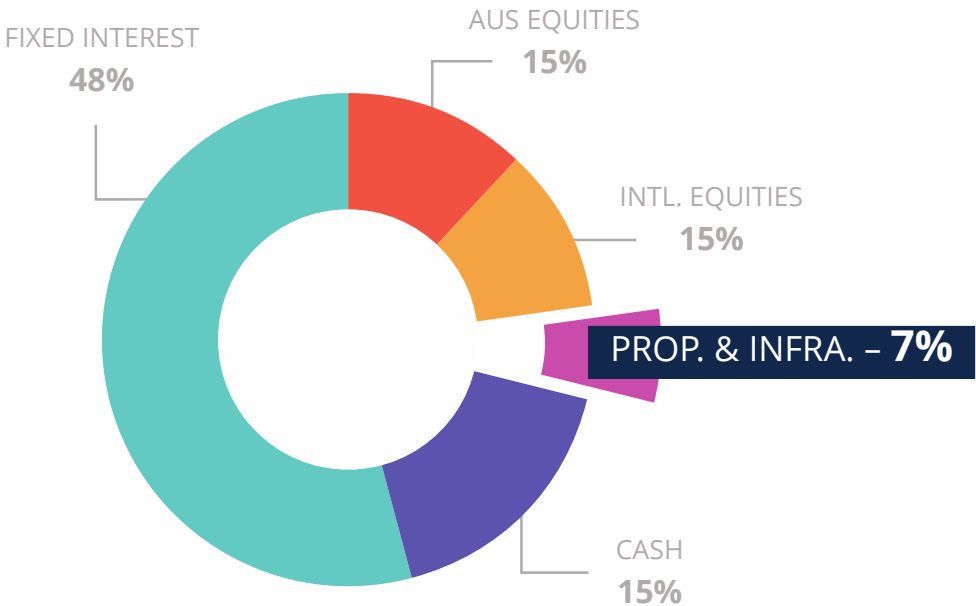
Asset Allocation – Conservative

INVESTSMART MEMBERS' CONSERVATIVE PORTFOLIO



Biggest moves in 6 months: 3% out of Aus Equities into Property and a little into International Equities

INVESTSMART CONSERVATIVE PORTFOLIO

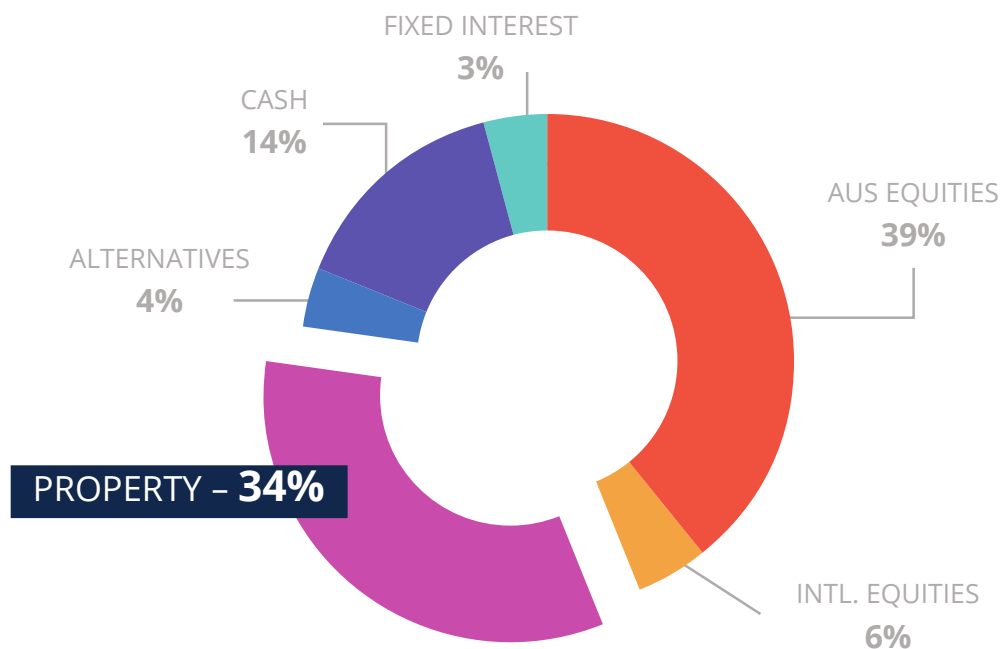


Biggest moves in 6 month: 15% out of cash into Fixed Interest and a small allocation of nearly 5% to Global Infrastructure



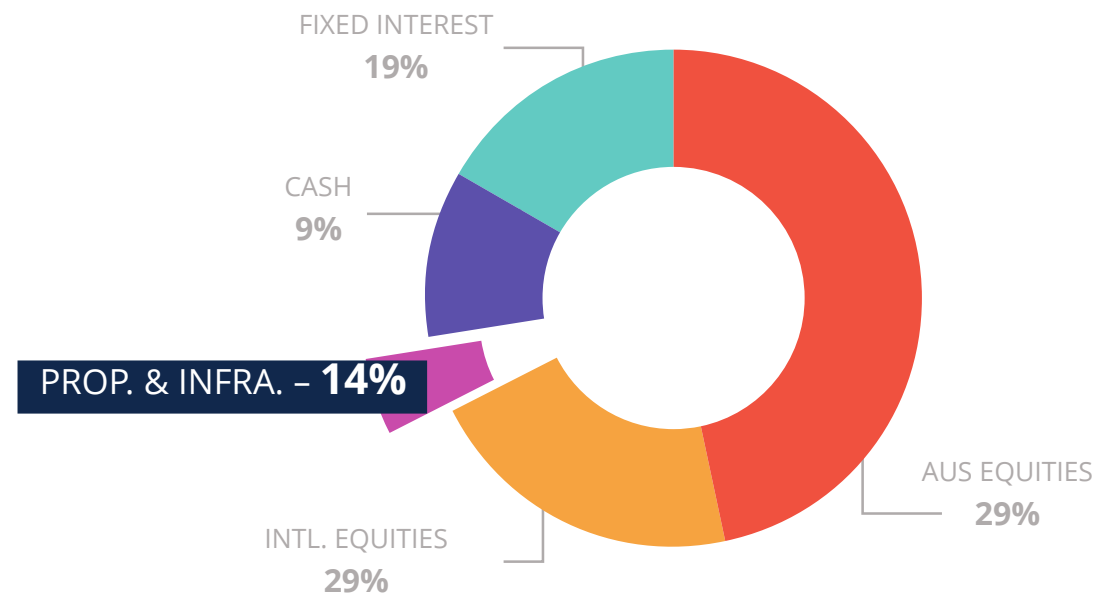
Asset Allocation – Core Growth

INVESTSMART
MEMBERS' GROWTH PORTFOLIO



Biggest moves in 6 months: not much

INVESTSMART
GROWTH PORTFOLIO



Biggest moves in 6 months: 9% out of Australian Equities and into Fixed Interest and a small allocation of nearly 7% to Global Infrastructure

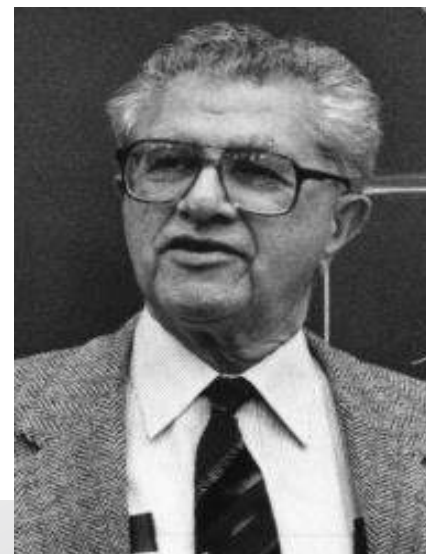


Modern Portfolio Theory

NOBEL PRIZE 1990

“Adding assets to a diversified portfolio that have correlations of less than one with each other can decrease portfolio risk without sacrificing returns.”

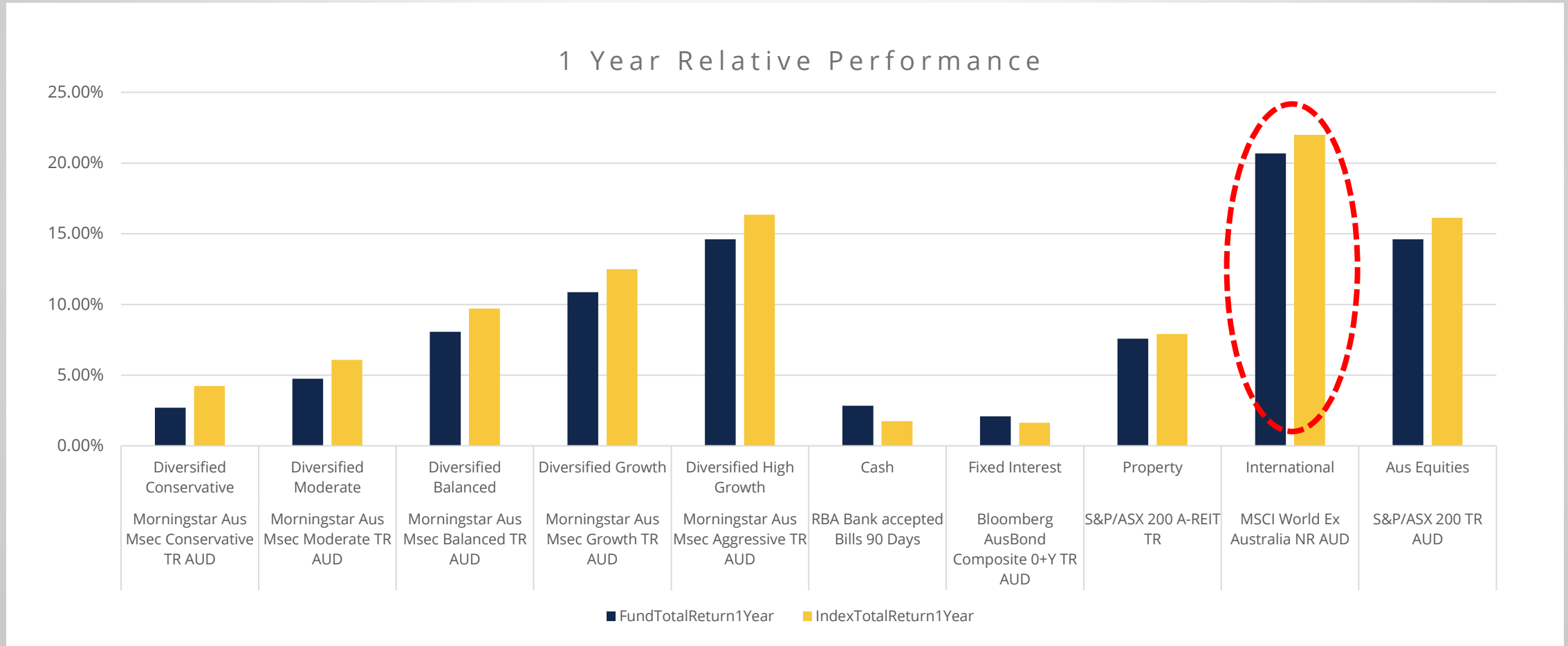
– Markowitz, Sharpe and Miller





1 Year Relative Performance

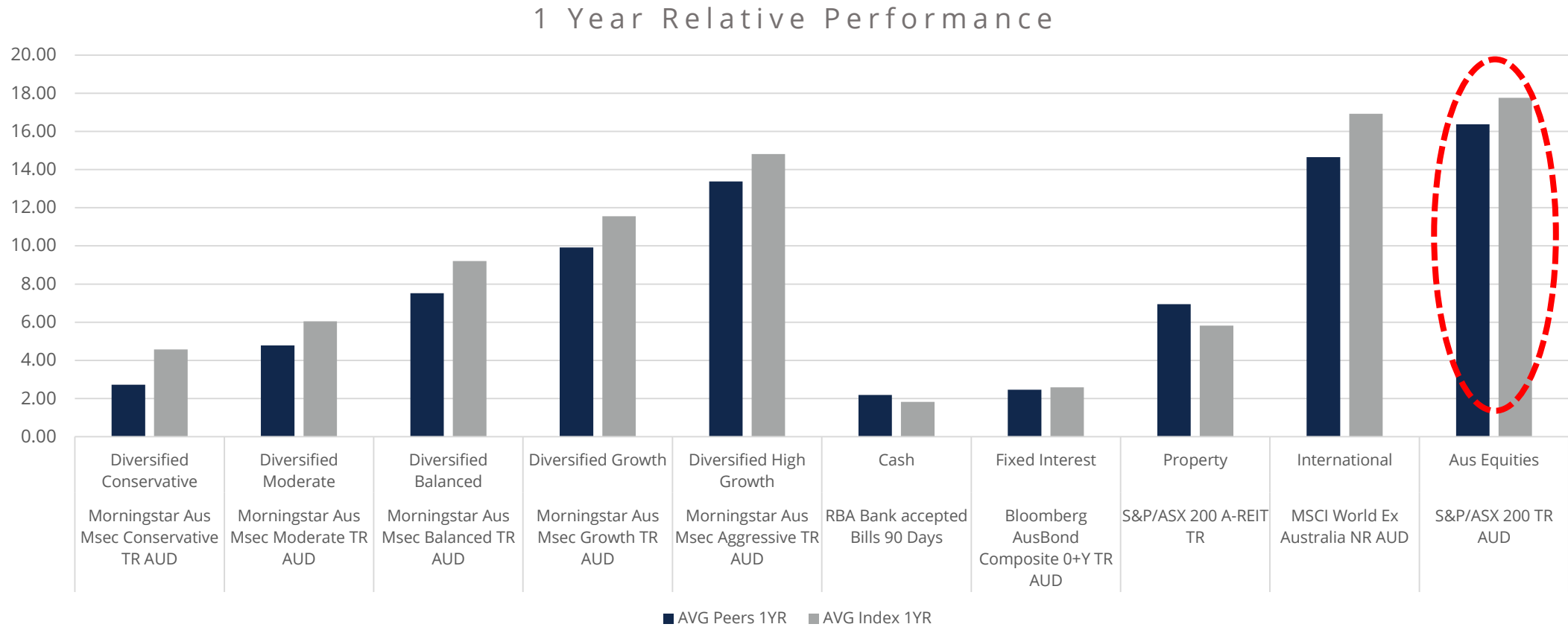
OCTOBER 2017





1 Year Relative Performance

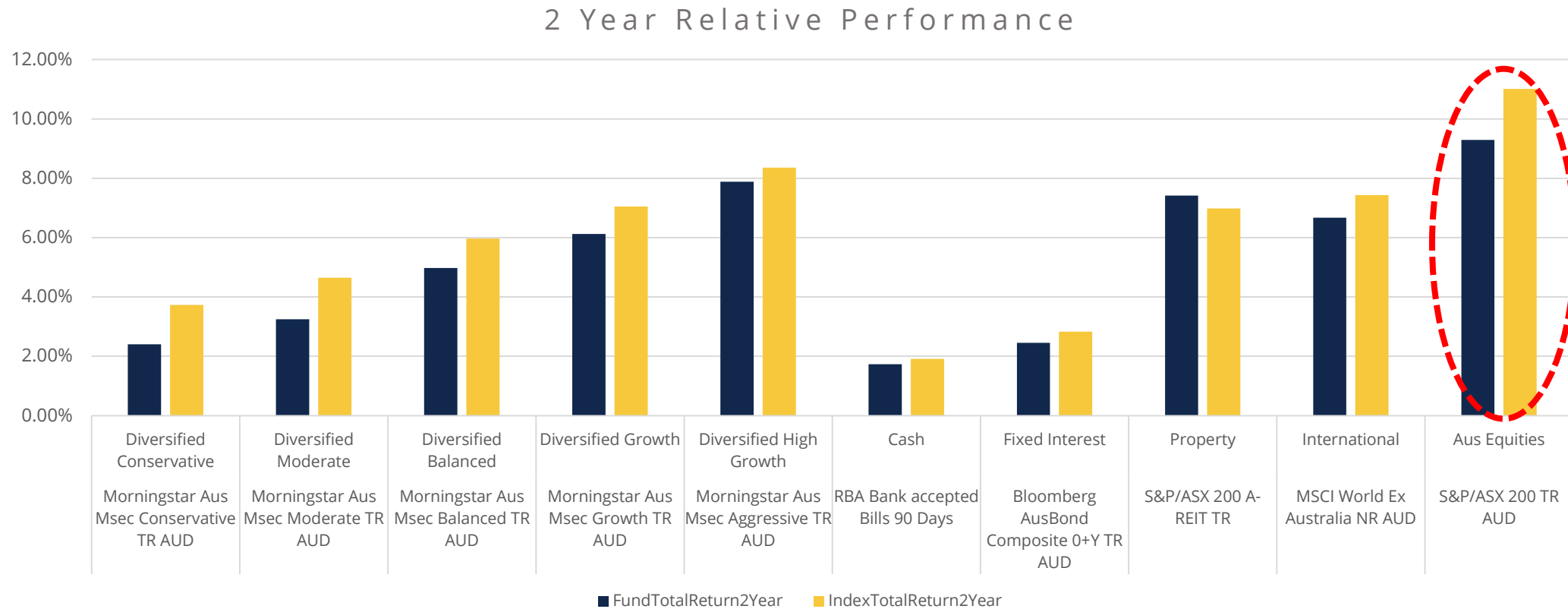
APRIL 2017





2 Year Relative Performance

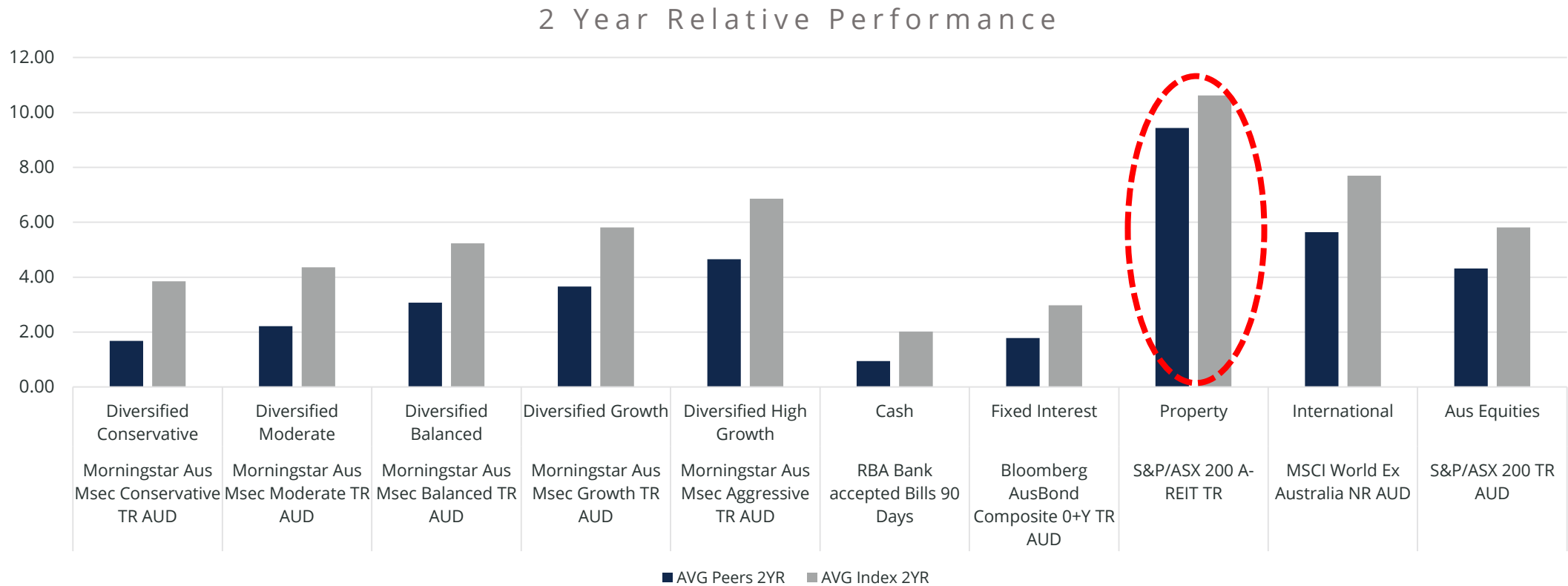
OCTOBER 2017





2 Year Relative Performance

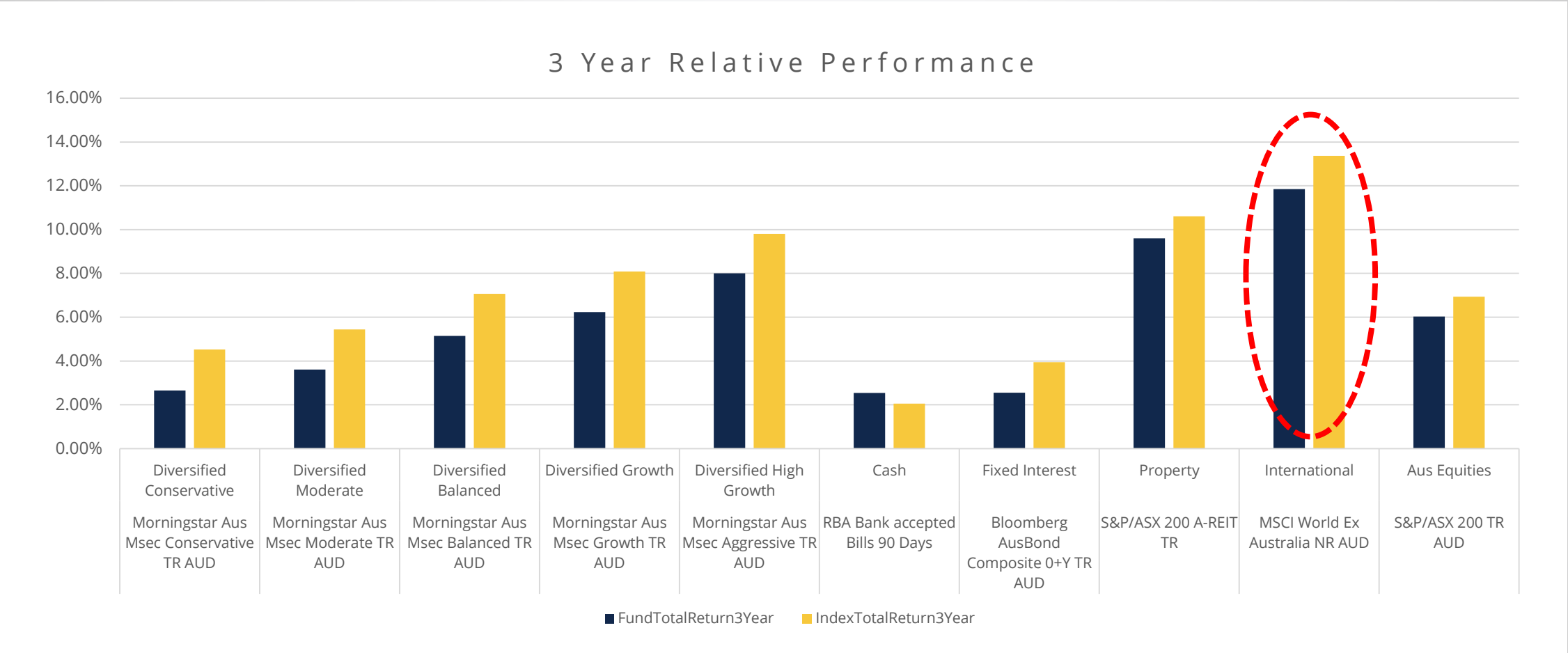
APRIL 2017





3 Year Relative Performance

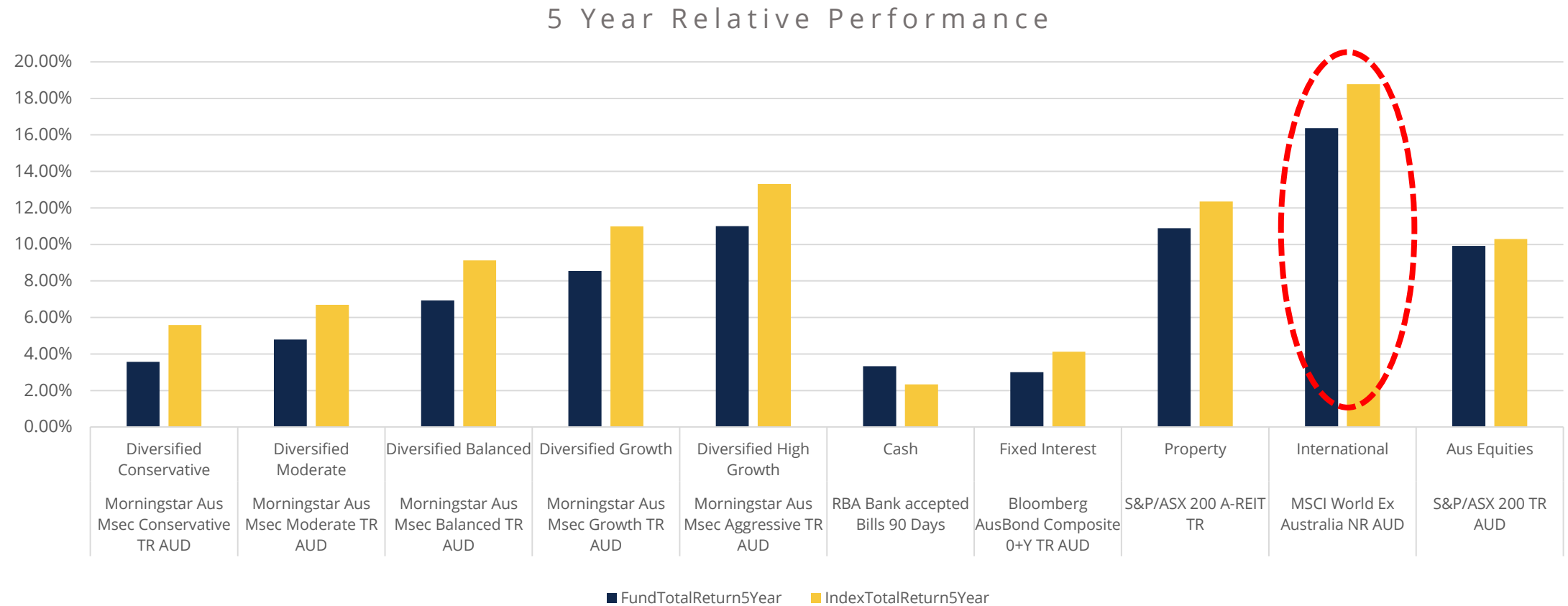
OCTOBER 2017





5 Year Relative Performance

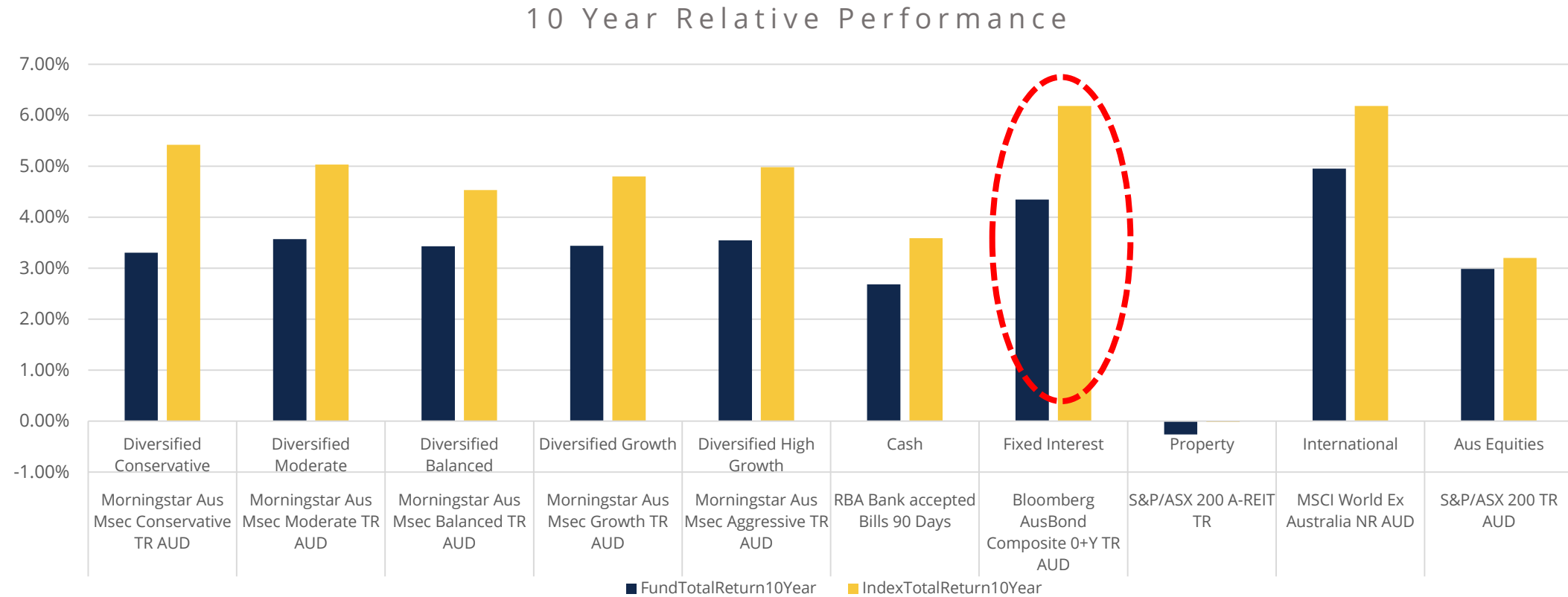
OCTOBER 2017





10 Year Relative Performance

OCTOBER 2017





Does rebalancing work?

Without rebalancing

Total capital = **\$217,814**

Rebalancing only 4x over 20yrs

Total capital = **\$250,666**

CGAR over 20 years without
rebalancing **7.64%**

CGAR over 20 years with
rebalancing **8.39%**

Rebalancing Works				Starting Balance			\$50,000	
		Cash	Fixed Interest	Australia	International	Property	Total	
Rebalance		\$ 4,450	\$ 9,650	\$ 14,700	\$ 14,600	\$ 6,600	\$ 50,000	
YES/NO	Year	RBA Bank	Bloomberg Aus	S&P/ASX All Ord	MSCI World E	S&P/ASX 300	Total	Health Check
0	1997	4,725	10,956	17,214	18,358	7,981	59,235	97.93%
0	1998	4,964	12,182	18,672	25,282	9,611	70,712	93.05%
0	1999	5,210	12,608	21,364	29,660	9,843	78,685	91.51%
0	2000	5,514	13,239	23,619	35,967	10,757	89,096	88.83%
1	2001	8,375	18,892	27,770	23,564	13,556	92,158	96.37%
0	2002	8,767	19,876	27,971	18,673	15,440	90,726	91.38%
0	2003	9,191	21,345	28,280	15,437	17,134	91,387	87.69%
0	2004	9,682	22,293	34,454	17,080	20,626	104,136	87.20%
0	2005	10,225	23,721	43,060	18,627	24,367	120,000	85.94%
1	2006	11,301	24,201	43,923	41,347	19,298	140,070	97.15%
1	2007	13,271	28,109	52,177	43,082	22,512	159,150	95.67%
0	2008	14,237	30,047	43,081	35,389	14,081	136,835	93.75%
0	2009	14,896	32,791	37,623	29,759	8,598	123,668	88.62%
0	2010	15,539	34,648	43,858	30,625	9,942	134,612	87.74%
0	2011	16,315	37,260	44,873	30,345	10,073	138,866	86.71%
1	2012	12,889	29,551	41,208	42,029	21,196	146,873	97.95%
0	2013	13,289	30,732	50,160	55,123	25,748	175,051	96.20%
0	2014	13,645	32,436	55,520	67,740	28,844	198,185	93.67%
0	2015	13,990	34,731	58,877	83,926	35,502	227,026	89.79%
0	2016	14,308	36,226	60,152	84,022	40,874	235,582	89.38%
0	2017	14,502	36,352	66,860	91,501	41,452	250,666	89.36%

Assumption: Growth Portfolio asset allocation



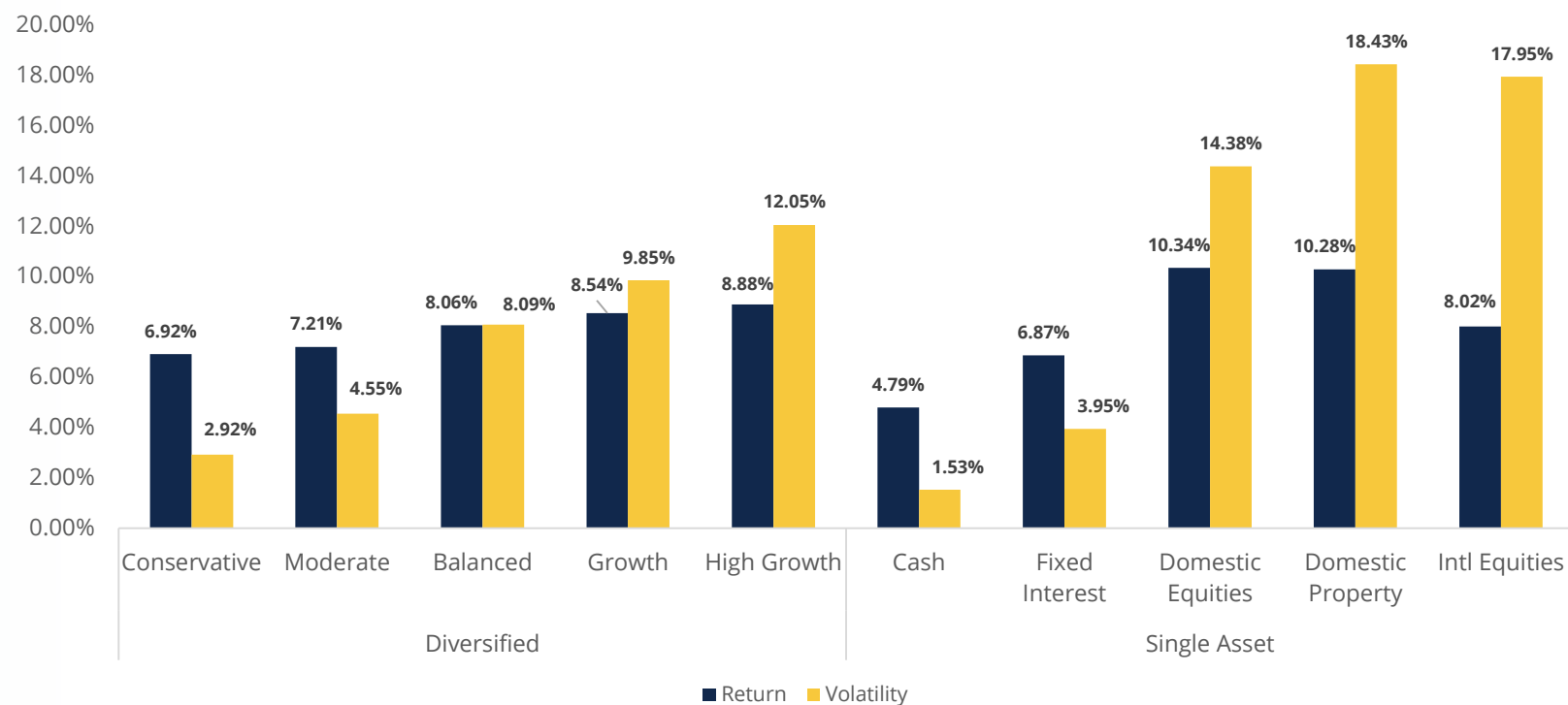
Sequencing risk?

The impact of volatility of investment returns on the value of your investment, called **sequencing**.

Sequencing is the order and timing of investment returns.

The **risk** with **sequencing** and retirement income is that unfavourable investment returns close to retirement can result in less money for retirement.

RISK VS RETURN - 23 YEARS

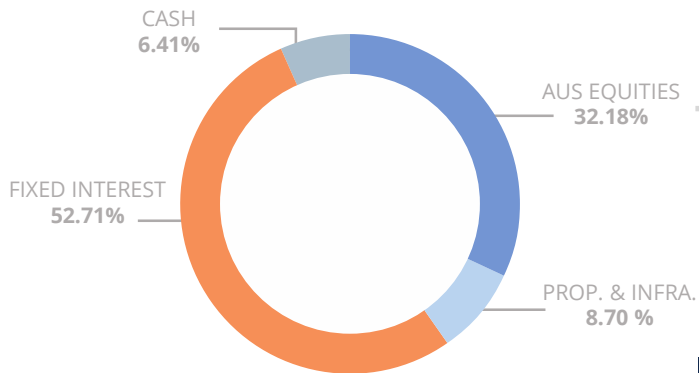




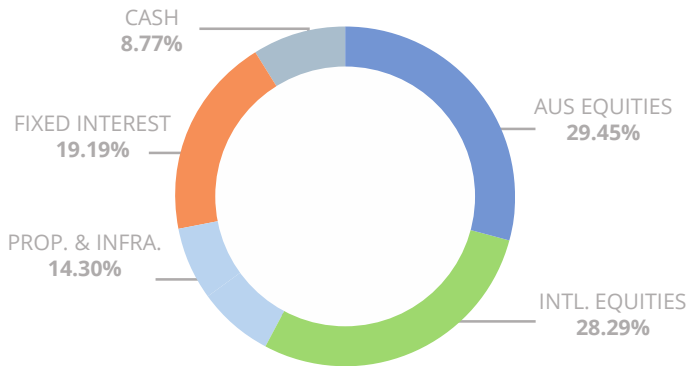
Portfolio Optimisation

DIVERSIFIED

DIVERSIFIED INCOME

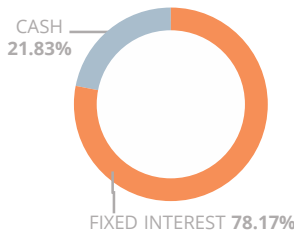


CORE GROWTH

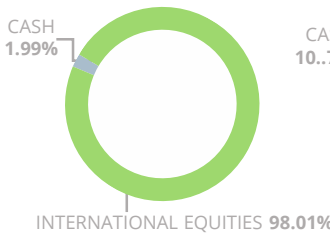


Active asset class allocation, using a mix of ETF's and managed funds

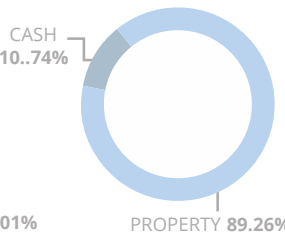
INTEREST INCOME



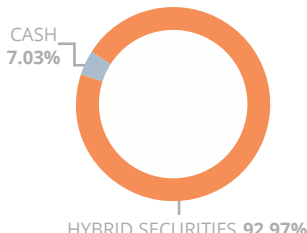
INTERNATIONAL EQUITIES



PROPERTY



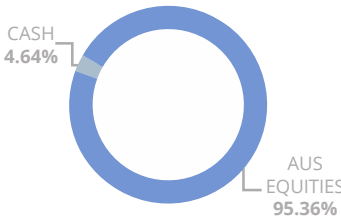
HYBRID INCOME



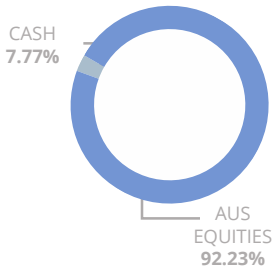
Active asset class allocation, using a mix of ETF's and managed funds

Active management of ASX Hybrid Securities

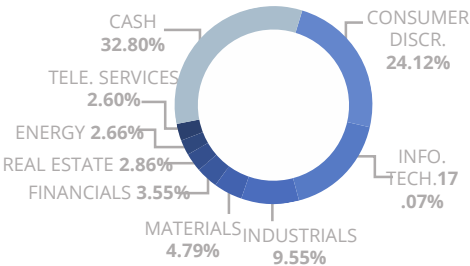
EQUITY INCOME



EQUITY GROWTH



SMALL COMPANIES



Active management of Australian Equity portfolio



InvestSMART Core Growth

OCTOBER 2017

ACTIVE ASSET ALLOCATION

BENCHMARK:

Morningstar Aus Msec Growth TR AUD

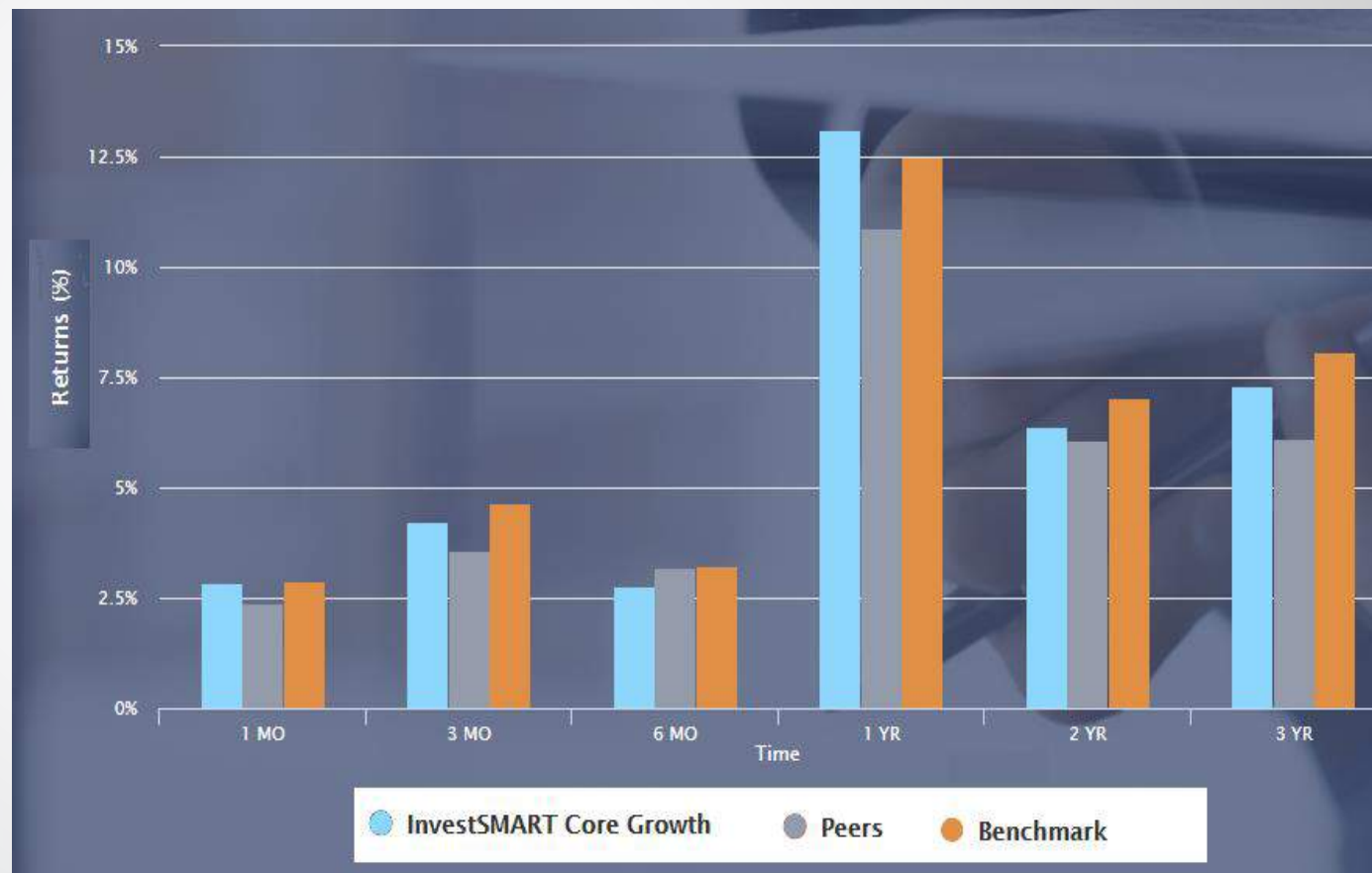
AVERAGE RELATIVE PERFORMANCE:

vs 847 peers

RELATIVE FEE COMPARISON:

Core Growth Fees: 0.77%

Average peer fees: 1.80%





Staying the course is not easy

Our 5 SMART step plan to help

1. Set achievable goals
2. Manage and research
3. Assess & diversify across asset classes
4. Rebalance from time to time
5. Track to stay on course





JAMES CARLISLE
HEAD OF RESEARCH

Putting the Value into Your Portfolio





Holding *not* Trading

- Intelligent investing is about holding companies while they generate value
- **NOT** buying stocks to flip to someone else





Focus on Portfolio

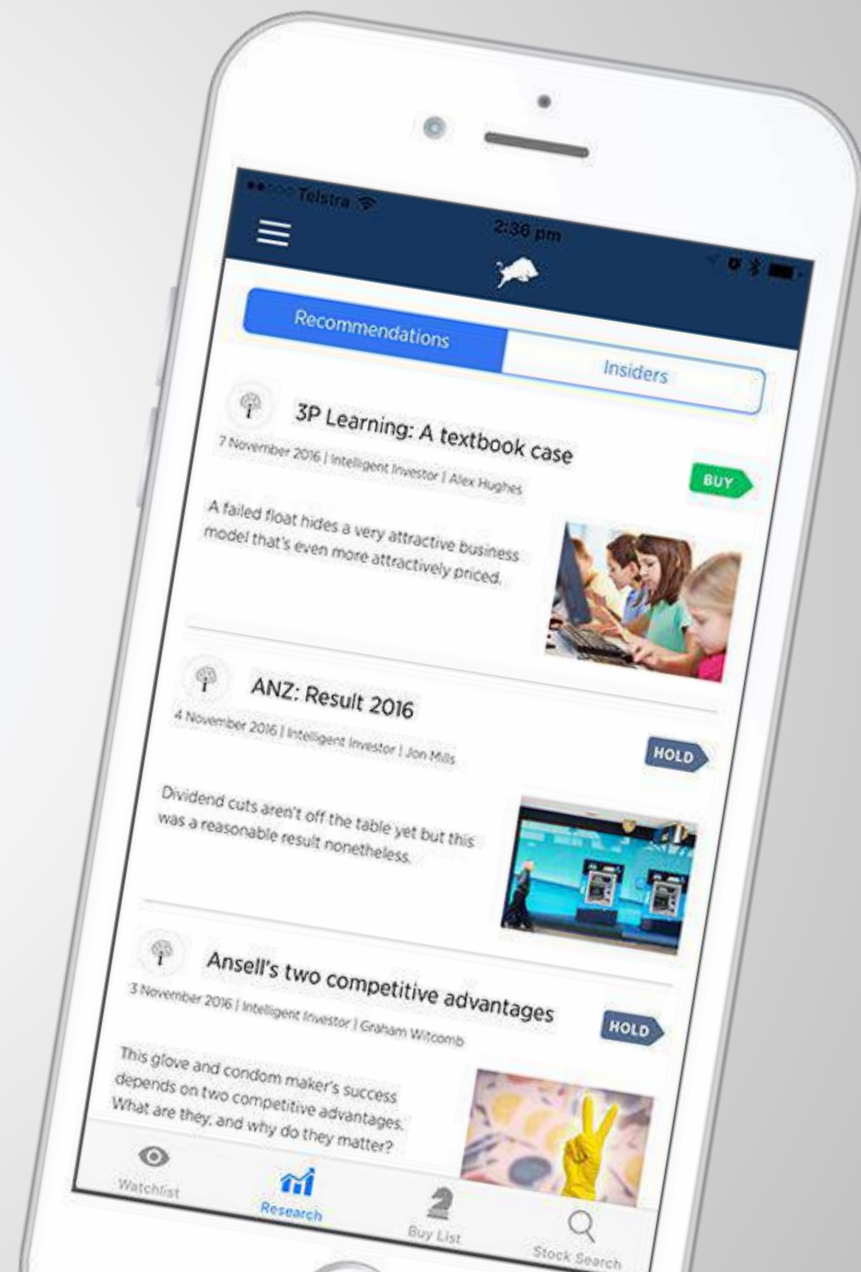
- Portfolio defines the stocks you're holding
- Maintain portfolio that's as undervalued as possible within acceptable levels of risk
- Buying and selling just a means to achieving this





When to Buy

- Buy when confident a stock is:
 - a) Within your 'circle of competence'; and
 - b) The transaction makes your overall portfolio more undervalued; and
 - c) It maintains an acceptable portfolio balance
- Note that (b) is relative, so buying and selling are two sides of same coin





When to Sell

- Sell when confident a stock is:
 - a) No longer within your circle of competence; or
 - b) The transaction makes your overall portfolio more undervalued; or
 - c) It restores an acceptable portfolio balance.
- Avoid overtrading



How Much Cash?

- If no replacement then compare with alternative
 - Eg. cash or mortgage rate
- Those with mortgages need higher returns to justify holding stocks
- If alternative is cash, then best to keep long-term investments close to fully invested





Maintaining an Acceptable Balance

- 'Acceptable balance' to reduce risk
- Risk is uncertainty over your outcome
- Two types of risk:
 - a) Knowledge risk;
 - b) Event risk





Knowledge Risk

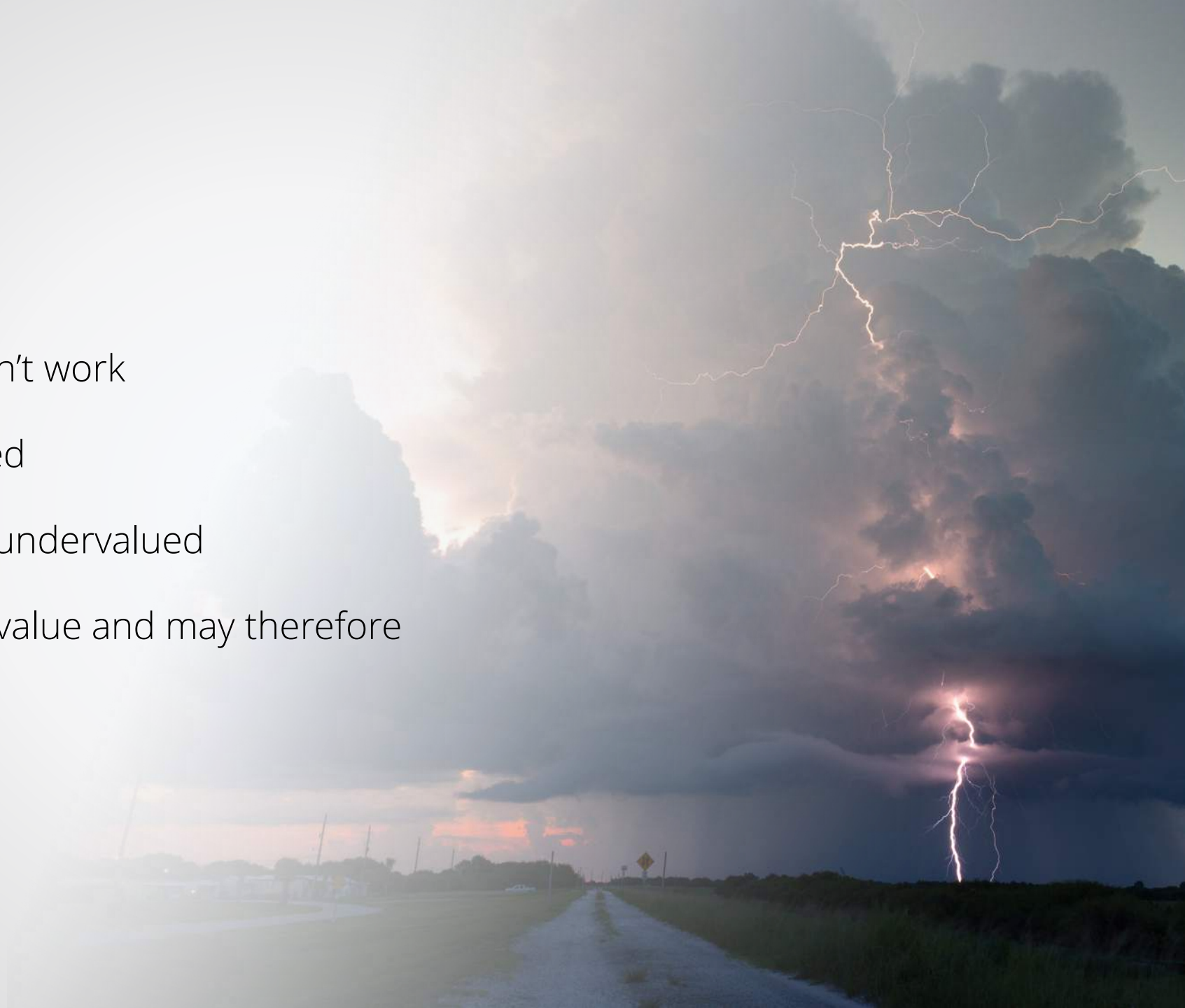
- Have we got our sums right
- Less confidence – greater diversification
- Uncertain about all stocks – consider index funds
- Maybe hold several stocks in same sector
 - Eg Banks, IVF





Event Risk

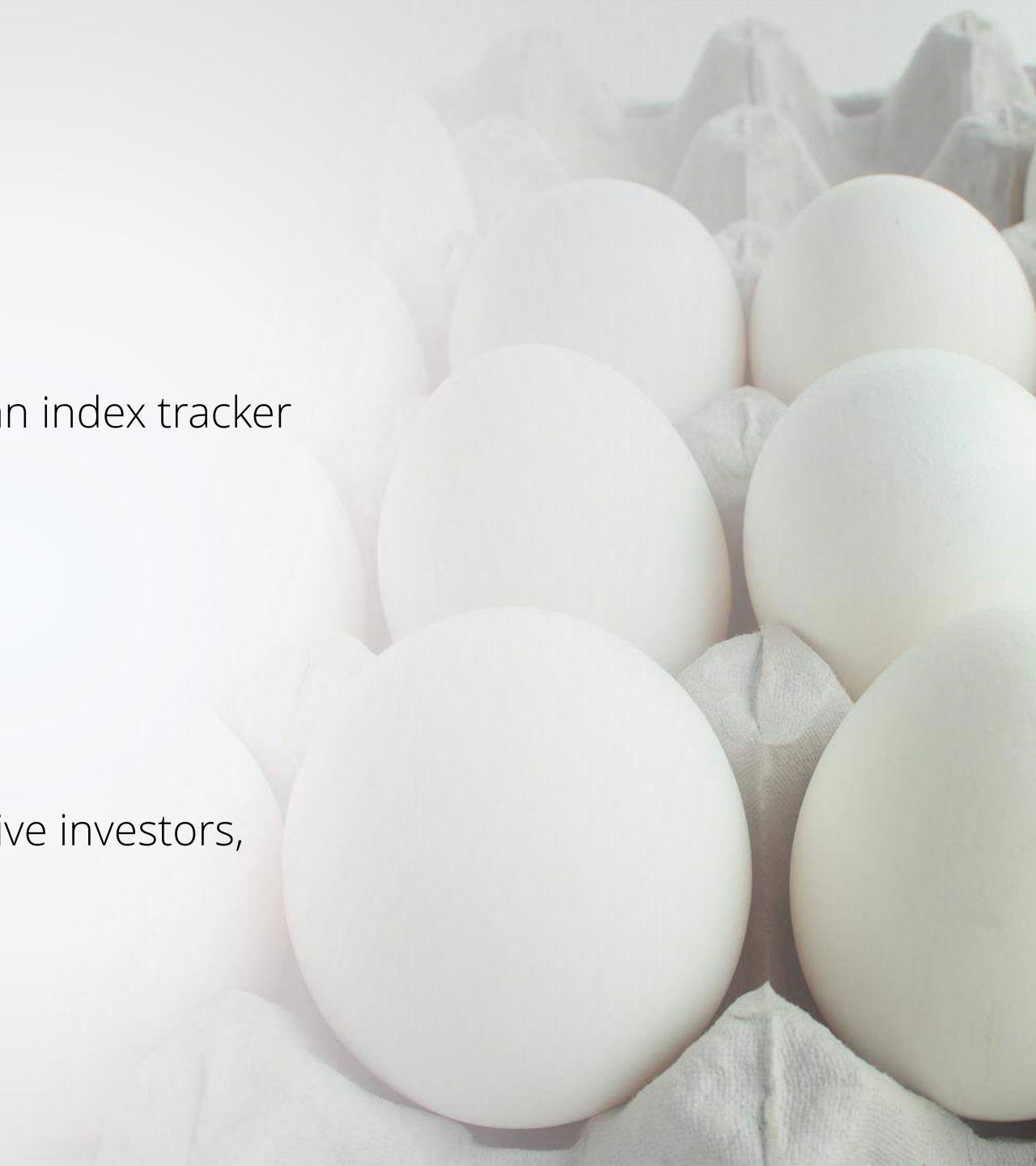
- There's a chance things won't work
- Again, diversification needed
- **BUT** additional stocks less undervalued
- Diversification opposed to value and may therefore reduce 'margin of safety'





How Many Stocks?

- Low confidence – maximum diversification; an index tracker
- Otherwise number will depend on:
 - Level of confidence
 - Ability to recover from setbacks
 - Type of stocks
- 12–30 holdings will make sense for most active investors, investing in normal range of stocks





Splitting Chips

- Split your portfolio into chip sizes
- 25 stocks means 4% chips
- Sometimes put two chips into a safer stock; or spread two or three across a sector
- Note our risk ratings and maximum recommended portfolio weightings





Recent Transactions – Equity Growth

- **15 Jun 17** Reduced **Computershare** from 5.9% to 3.6% at \$14.54;
Bought 3.5% weighting in **Navitas** at \$4.43;
Increased **TPG Telecom** by 1% to 3.6% at \$5.54.
- **17 Aug 17** Reduced **Fleetwood** from 4.5% to 3.0% at \$2.78.
- **29 Aug 17** Sold entire 2.0% holding in **GBST** at \$1.67.
- **12 Sep 17** Reduced **South32** from 5.1% to 3.0% at \$3.12.
- **20 Oct 17** Increased **TPG Telecom** from 3.2% to 4.0% at \$5.14.
- **6 Nov 17** Sold entire 3.4% holding in **South32** at \$3.56.



Recent Transactions – Equity Income

- **15 Jun 17** Reduced **Computershare** from 5.6% to 3.6% at \$14.54;
Sold entire 1.4% holding in **Ainsworth Game Tech** at \$2.36;
Bought 3.5% weighting in **Navitas** at \$4.43.
- **29 Aug 17** Sold entire 2.0% holding in **GBST** at \$1.67.
- **12 Sep 17** Reduced **South32** from 4.4% to 3.0% at \$3.12.
- **6 Nov 17** Sold entire 3.4% holding in **South32** at \$3.56.



As at 7 November 2017

EQUITY GROWTH PORTFOLIO	Total return (%)	Current weight (%)	EQUITY INCOME PORTFOLIO	Total return (%)	Current weight (%)
ASX	34.8	7.5	ASX	34.6	6.3
TRADE ME GROUP	24.6	5.3	CBA	3.6	5.3
BHP BILLITON	33.3	4.9	WOOLWORTHS	4.6	5.1
SYDNEY AIRPORT	38.1	4.8	IOOF HOLDINGS	19.9	5.0
SEEK	49.9	4.7	SYDNEY AIRPORT	37.6	4.8
IOOF HOLDINGS	19.9	4.4	TRADE ME GROUP	23.7	4.7
FLIGHT CENTRE TRAVEL GROUP	54.4	4.3	SEEK	49.3	4.7
TPG TELECOM	(3.4)	4.3	FLIGHT CENTRE TRAVEL GROUP	54.2	4.3
AMAYSIM AUSTRALA	13.5	4.2	BHP BILLITON	14.1	4.2
ANSELL	53.3	3.9	ALE PROPERTY GROUP	29.6	4.1
PERPETUAL	1.3	3.8	WESTPAC	7.2	3.9
COMPUTERSHARE	48.8	3.7	PERPETUAL	1.4	3.9
MACQUARIE GROUP	59.5	3.7	AMAYSIM AUSTRALIA	20.2	3.8
NAVITAS	9.5	3.7	ANSELL	52.8	3.8
NEWS CORPORATION CLASS B VOTING	26.1	3.7	COMPUTERSHARE	48.3	3.7
HANSEN TECHNOLOGIES	23.3	3.4	NAVITAS	9.5	3.7
VIRTUS HEALTH	(0.5)	3.3	PMP	47.0	3.7
NANOSONICS	72.1	3.1	MACQUARIE GROUP	58.8	3.6
CROWN RESORTS	3.2	3.1	NEWS CORPORATION CLASS B VOTING	25.9	3.5
FLEETWOOD CORPORATION	91.8	2.8	CARSales.COM	31.1	3.1
CARSales.COM	31.2	2.7	CROWN RESORTS	11.7	3.0
AINSWORTH GAME TECH	(10.0)	2.2	VIRTUS HEALTH	(0.4)	2.7
ICAR ASIA	(71.8)	0.6	CASH		9.2
CASH		12.3			
DIVIDEND YIELD	3.4		DIVIDEND YIELD	3.9	
PORTFOLIO RETURN (% pa, after costs)	12.9		PORTFOLIO RETURN (% pa, after costs)	14.3	
ALL ORDS RETURN (% pa)	9.7		ALL ORDS RETURN (% pa)	9.7	



ALEX HUGHES
SENIOR ANALYST

Smaller Companies

Can play a part in achieving your goals



Fewer Analysts Means More Opportunity

MARKET CAP RANGE (\$M)	NO. OF COMPANIES	ANALYSTS	AVERAGE NO. OF ANALYSTS
>100,000	4	84	21
50,000–99,999	3	55	18
25,000–49,999	5	81	16
10,000–24,999	29	438	15
5,000–9,999	35	432	12
1,000–4,999	134	1,239	9
500–999	98	451	5
250–499	121	322	3
100–249	224	339	2
<100	1,175	300	0.3



Finding Ideas

- No concept stocks or 'specy' explorers
- Focus on competitive advantage or deep mispricing
- Independent thinking, psychology, time horizon





Case Study

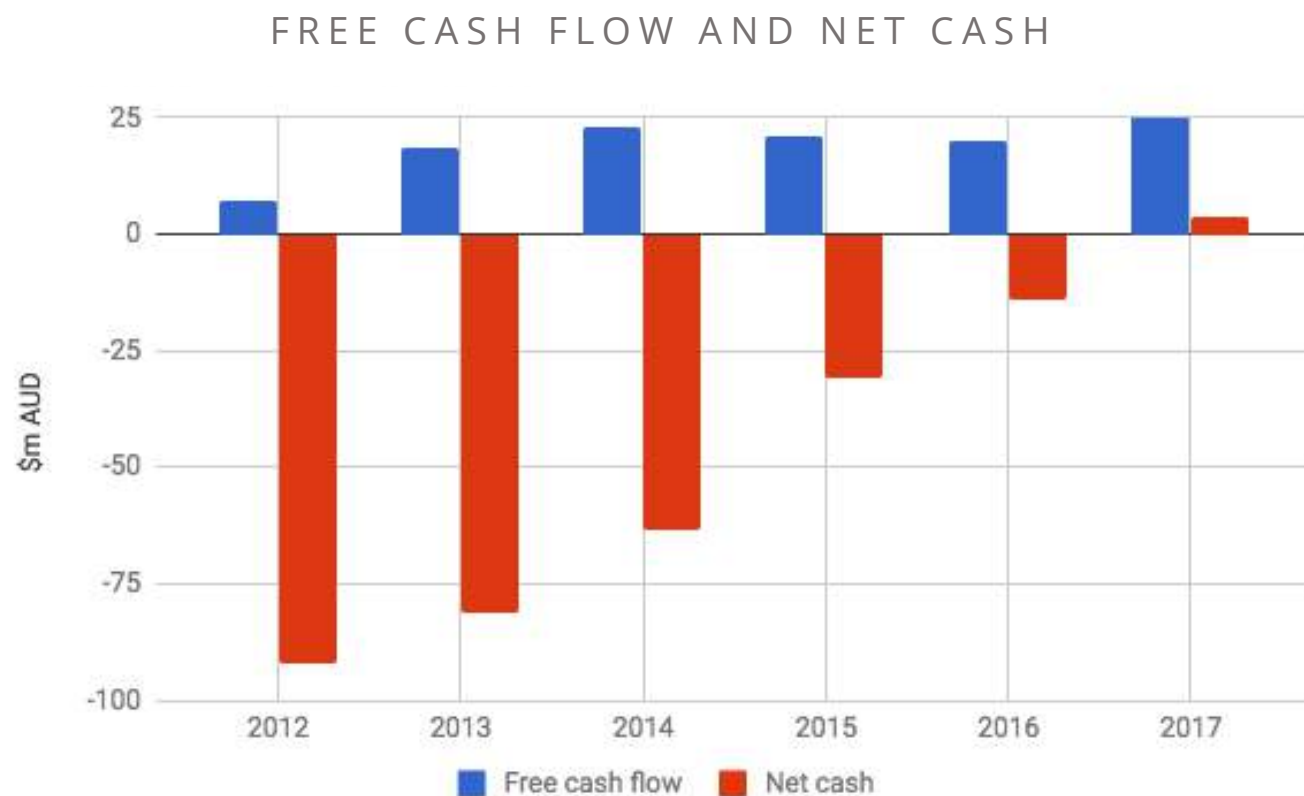
GLOBAL CONSTRUCTION SERVICES (ASX:GCS)

- A Western Australian scaffolding business
- Utilisation is name of the game.
Paid per tonne per day for installed kit
- Commercial, mining and residential construction





Cash Generation & Balance Sheet Repair Overlooked





What Happened After Buying?

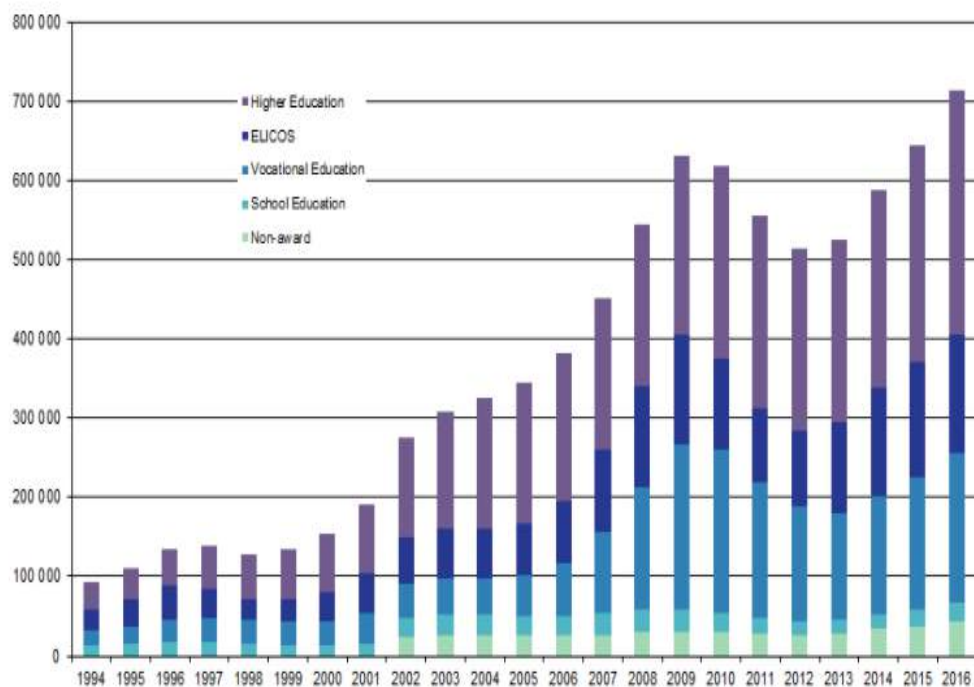
- Non core assets sold for \$42.5m, boosting cash flow and unlocking tax losses
- Reinstated semi-annual dividends, paid a special dividend
- Expanded east at very low cost/risk
- Grenfell tower disaster provides big opportunity



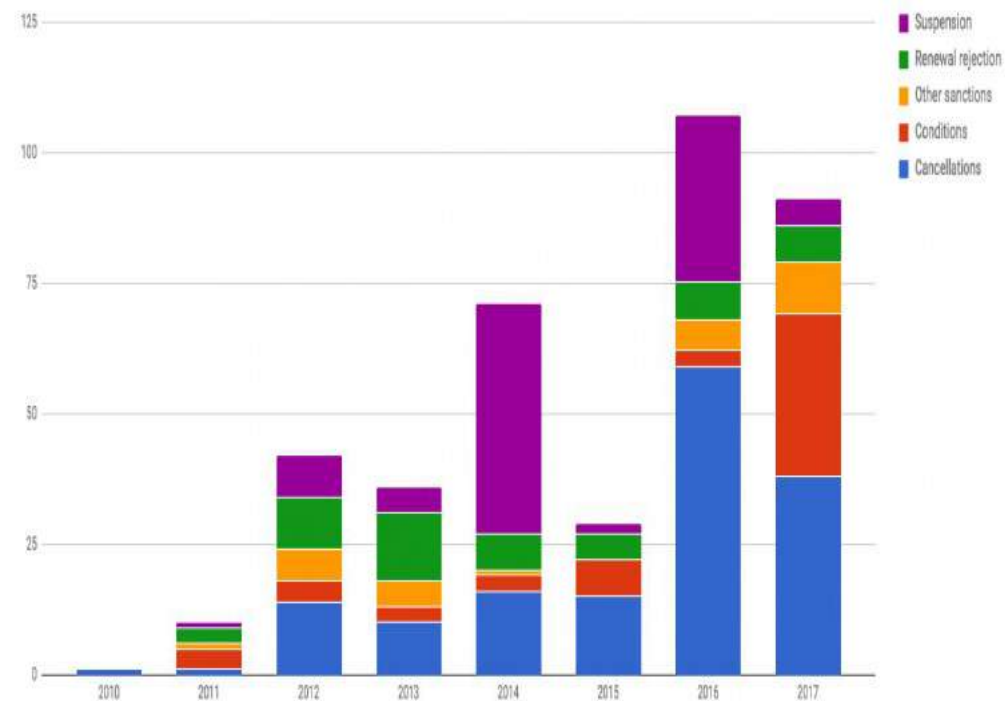


For Profit Education: Industry Tailwinds But Many Shonks

INTERNATIONAL STUDENT ENROLMENTS IN AUSTRALIA 1994-2016



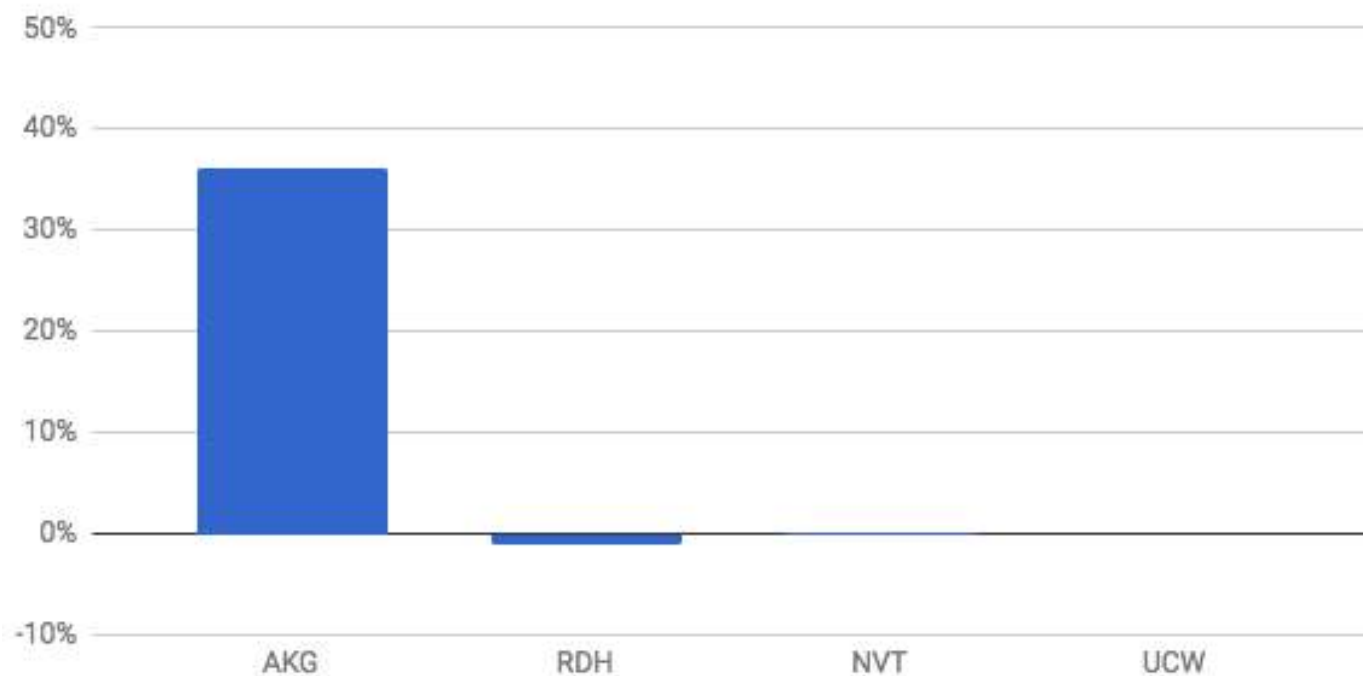
ASQA REGULATORY ENFORCEMENTS





Which Insiders Have Conviction in Their Company?

% of shares on issue purchased by insiders since onset of crisis



Since Aug 2014 (inception of VET crisis)



Live Idea

ACADAMIES AUSTRALIA (ASX:AKG)

- A mini Navitas
- Founded in 1908. Listed in 1977
- Pathway courses, English & vocation across 18 colleges
- Predominantly full fee paying international students
- Owns 7.8% of competitor Redhill Education (ASX:RDH)
- \$45m market cap
- EV/EBITDA of ~5x (for context Navitas is 13.5x)





Live Idea

REDFLEX (ASX:RDF)

- Red light, speed and school bus arm photo enforcement
- \$65m market cap
- USA (57%) and international (43%)
- Owns ~1,000 cameras in USA. 70% on fixed fee per camera
- Voted down \$2.75 takeover bid by Macquarie in 2011.
- 2012 bribery scandal torpedoed share price to \$0.22.





The Litigation Anchor

- Significant leadership time spent addressing legal issues
- Capital stockpiled for settlements instead of invested for growth
- Contract tenders lost due to client concerns over insolvency
- Difficulties attracting talent
- General reputational damage





The Value Proposition

- Sunk costs ensure Redflex is the cheapest on re-tenders
- US camera network worth more than market cap
- 2017 saddled with one-offs. Strong reversion likely
- Takeover target (watch for ATS or Conduent)





InvestSMART Australian Small Companies Fund

PERFORMANCE TO 30 SEP 2017	1 MTH	3 MTHS	6 MTHS	1 YR	S.I. (P.A)*
InvestSMART Australian Small Companies Fund	3.50%	9.24%	11.50%	N/A	21.48%
S&P/ASX Small Companies Accumulation Index	1.31%	4.41%	4.04%	2.98%	8.21%
Excess to Benchmark	2.19%	4.83%	7.46%	N/A	13.27%

* Inception date = 1 February 2017



Questions & Answers

We'd love to hear your thoughts,
please hand in your feedback forms at the end of the session.