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# 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.

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TONY KAYE  
EDITOR

# Opening Address

Tony Kaye



# Where SMSFs are most invested

Where are you on the investment spectrum?

Asset Class	\$ Millions	% of Total Assets
Australian Shares	\$212,210	30.46
Cash and Term Deposits	\$159,686	22.92
Non-Residential Property	\$74,772	10.73
Unlisted Trusts	\$71,455	10.26
Managed Investments	\$37,695	5.41
Listed Trusts	\$33,257	4.77
Residential Property	\$31,761	4.56
LRBAs	\$28,610	4.11
Other Australian Assets	\$17,571	2.52
Debt Securities	\$9,886	1.42
Australian Unlisted Shares	\$6,714	0.96
Overseas Shares	\$4,371	0.63
<b>Total SMSF Assets</b>	<b>\$696,728</b>	





RON HODGE  
CEO & MANAGING DIRECTOR



**Staying the course is not easy**



# 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.







# Our Ethos

We believe in transparency and honesty.  
Central to our philosophy are our three core principles:



## Diversification

We recognise over the long-term, no one asset class is guaranteed to deliver consistent returns. Instead, we offer solutions to build a diversified portfolio to minimise risk without sacrificing returns.



## Lower Fees

Compounded over time, even a small difference in fees can result in substantial differences to your return. That's why our goal is to develop low cost investment solutions.



## Transparency

You can see what's in your portfolio at any time and track changes made by us.





# 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**

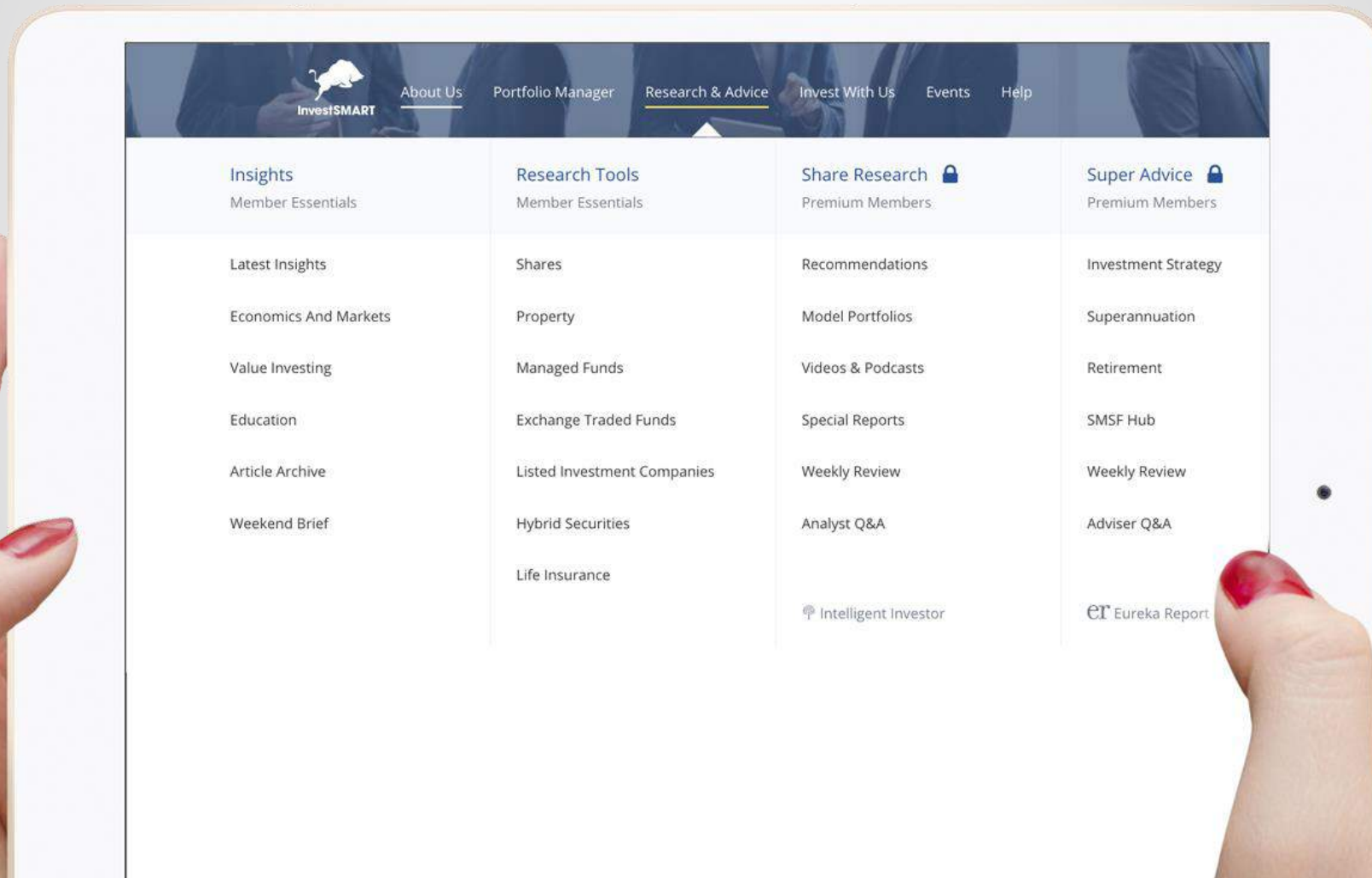
Total Value of Cash: **\$1,956,991,914**

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



# Research & Advice

Benefit from independent advice and research from our team of analysts and advisers.





# My Portfolio Manager – October 2017

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My Portfolio

Superannuation

Net worth

\$365,208.25

Growth 7 - 10 years

Performance (last 12 months)

My Portfolio

Benchmark Comparison

Dividends

Company	Dividend	Franking	Ex-div Date
No upcoming dividends found.			

Asset allocation

Australian Equities

58.92%

International Equities

23.73%

Property

4.07%

Cash

7.83%

Fixed Interest

5.43%

Research

Title	Author	Date
Woolworths: Result 2017	James Greenhalgh	24 Aug 2017
ASX: Result 2017	James Carlisle	23 Aug 2017
Amazon and the Aussie hit list - ...	James Greenhalgh	27 Jul 2017
What Holds should you Buy? Pt 2	John Addis	20 Jun 2017
What Holds should you Buy? Pt 1	John Addis	15 Jun 2017

HealthCheck

Australian Equities

29.59%

↑

International Equities

5.92%

↓

Property

9.82%

↓

Cash

0.70%

↓

Fixed Interest

13.16%

↓

Alternatives

✓

Announcements

Company	Announcement	Date
INW	Chairman's Address to Sharehol...	22 Nov 2017 8:21AM
INW	Change in substantial holding	16 Nov 2017 10:51AM
ASX	ASX Group Monthly Activity Rep...	3 Nov 2017 9:10AM
ASX	Appendix 3Y - Ken Henry	23 Oct 2017 4:26PM
INW	Proposed Constitution	20 Oct 2017 11:26AM

Add assets

Settings

HealthCheck

Your score

70%





# My Health Check – October 2017

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## My Portfolio

Superannuation

Net worth

\$365,208.25

Growth 7 - 10 years

HealthCheck

[Add assets](#)[Settings](#)**HealthCheck**

Your score

[HEALTHCHECK](#)[IMPROVE YOUR PORTFOLIO](#)

### 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 (58.9%)	29.6% <span>🟢</span>
INTERNATIONAL EQUITIES (23.7%)	5.9% <span>🔴</span>
PROPERTY (4.1%)	9.8% <span>🔴</span>
CASH (7.8%)	0.7% <span>🔴</span>
FIXED INTEREST (5.4%)	13.2% <span>🔴</span>
ALTERNATIVES (0%)	0% <span>🔴</span>

### Improve My Portfolio



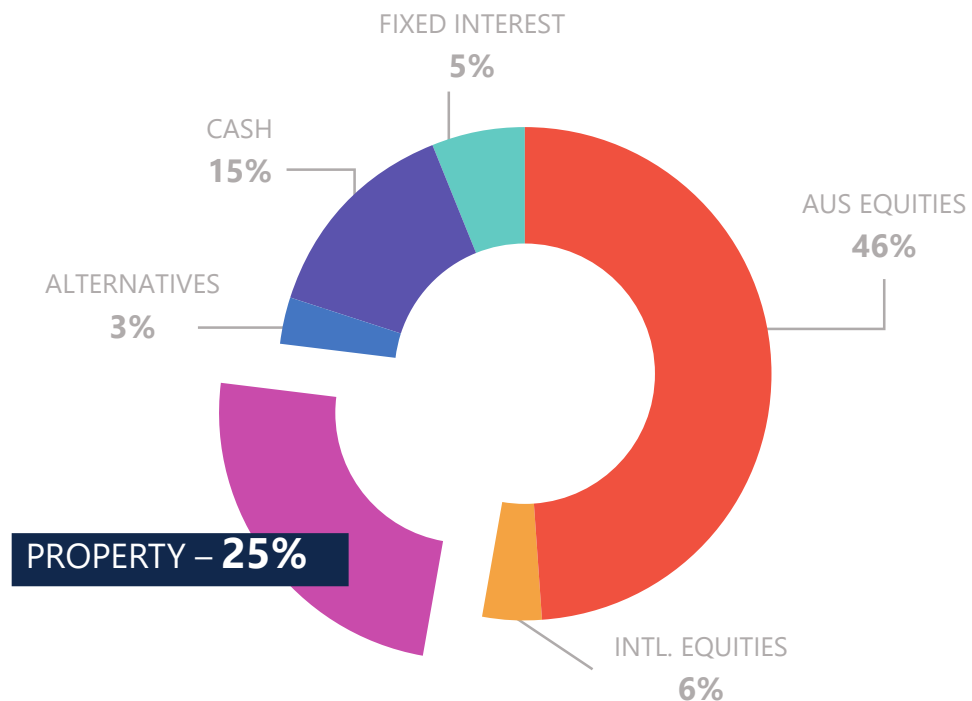
Use our portfolio simulator to see how investing in our expertly managed low cost models could improve your overall portfolio health.

[Improve my portfolio](#)



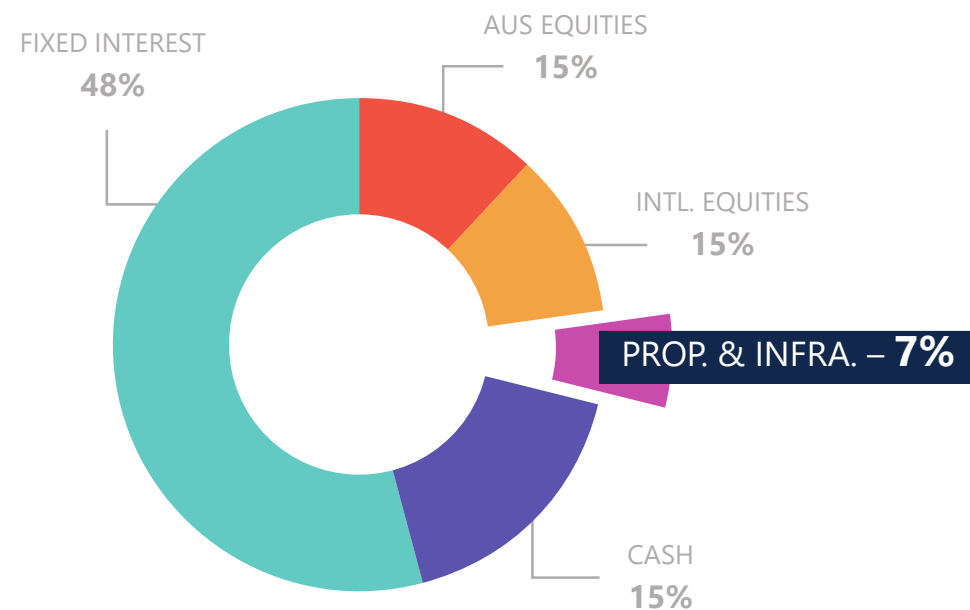
# Asset Allocation – Conservative

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

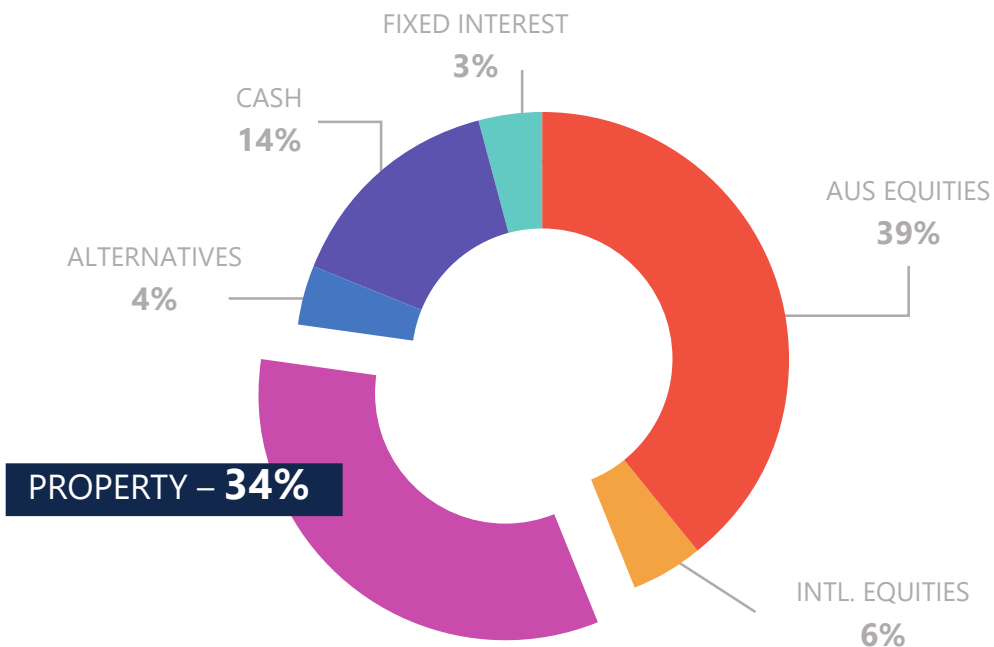


**Biggest moves in 6 month: 15% out of cash into Fixed Interest and a small allocation of nearly 5% to Global Infrastructure**



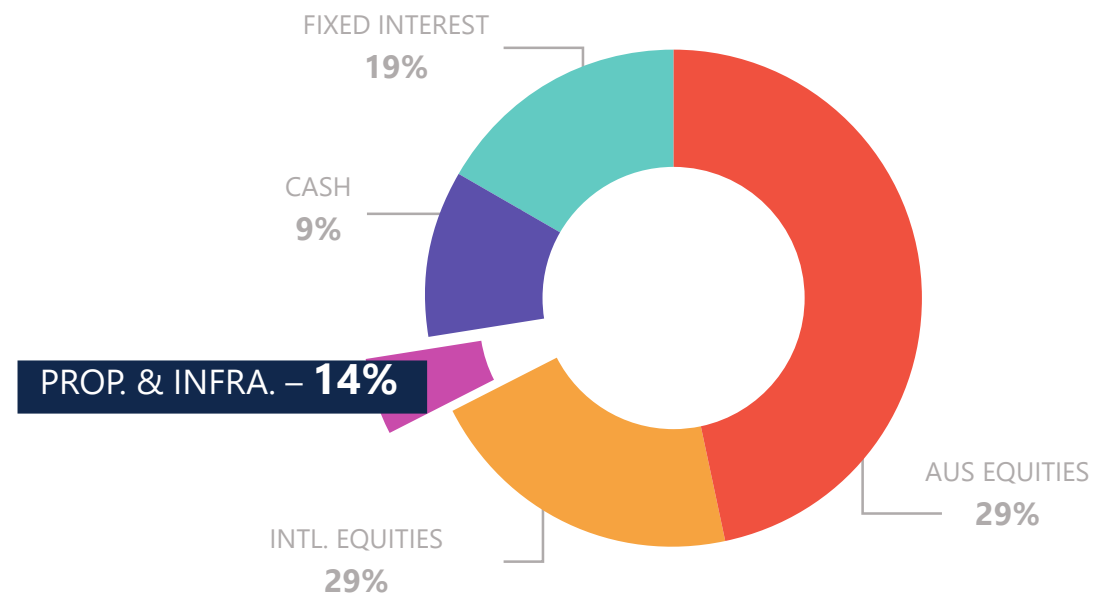
# Asset Allocation – Core Growth

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





# 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



# 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."*

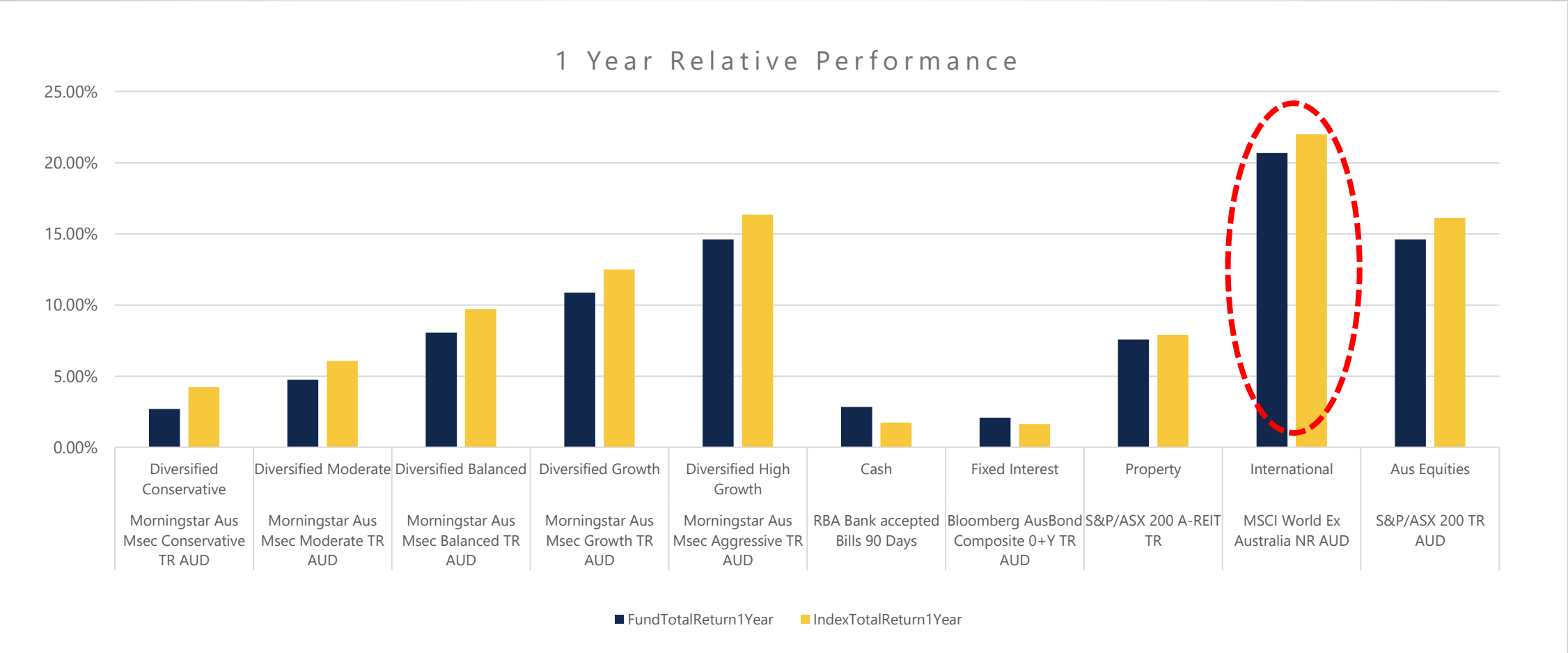
– Markowitz, Sharpe and Miller





# 1 Year Relative Performance

OCTOBER 2017

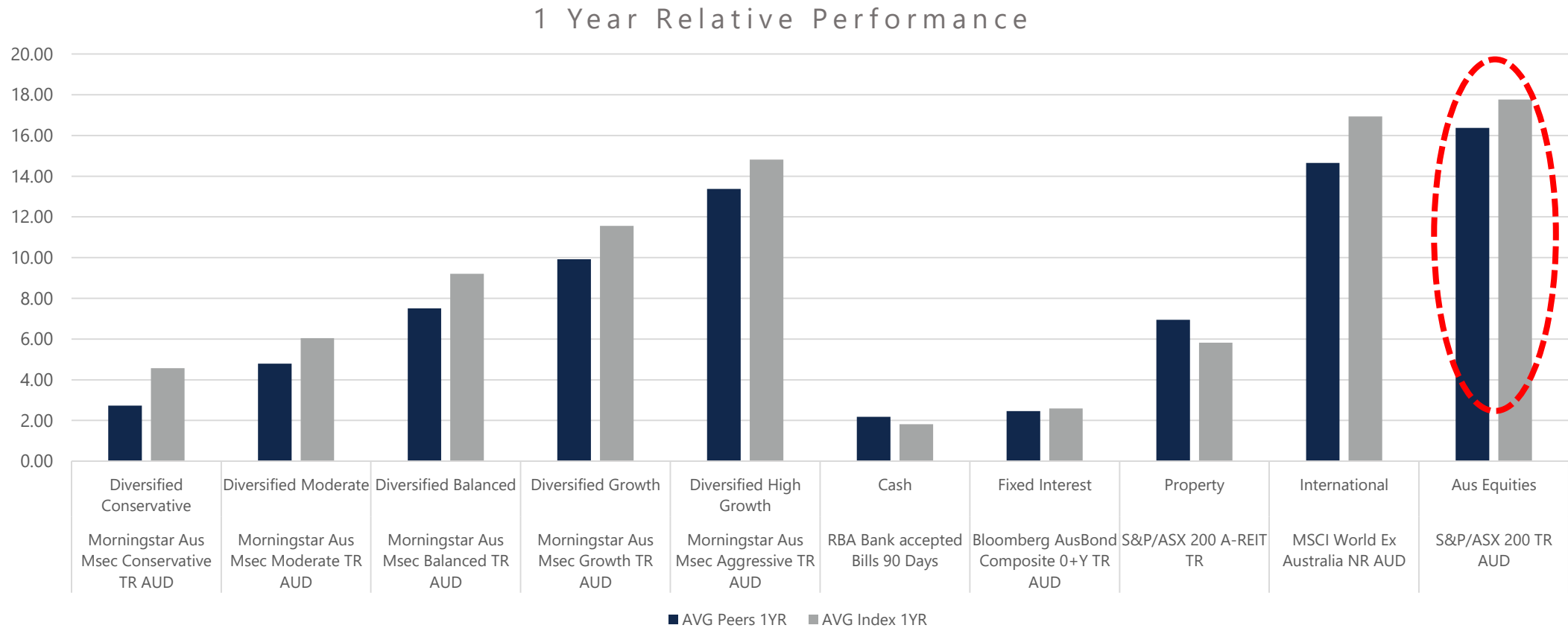






# 1 Year Relative Performance

APRIL 2017

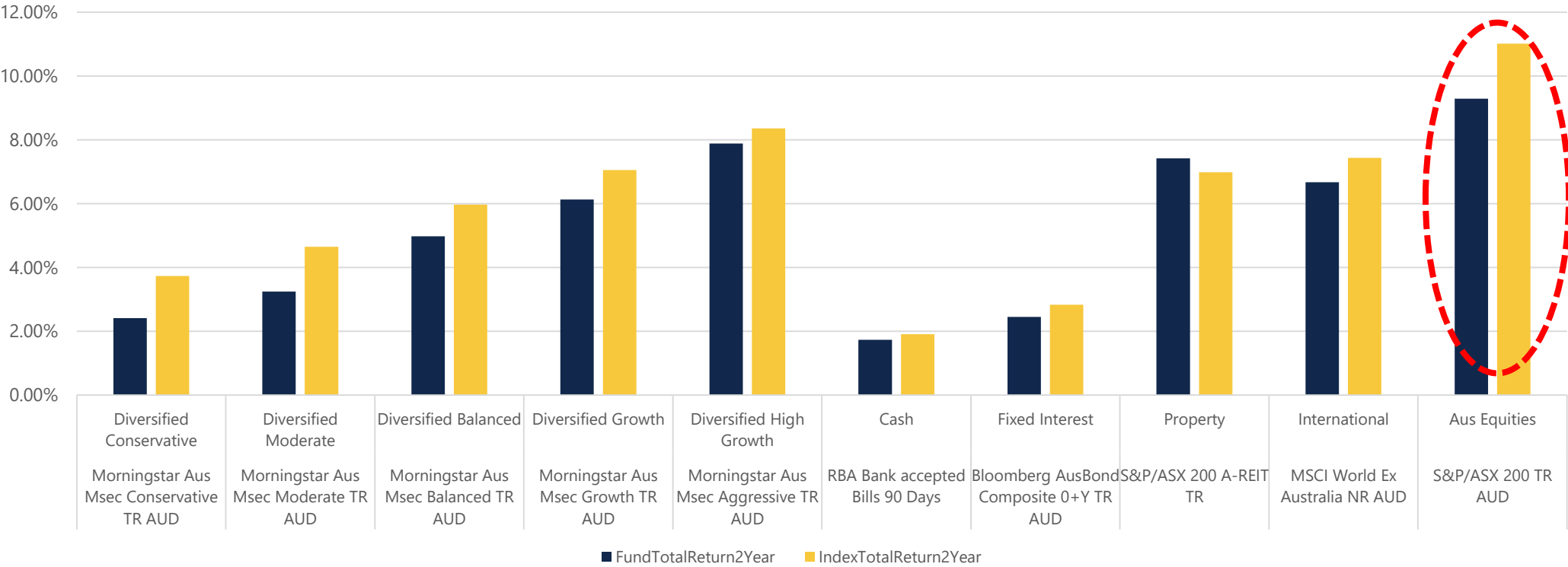




# 2 Year Relative Performance

OCTOBER 2017

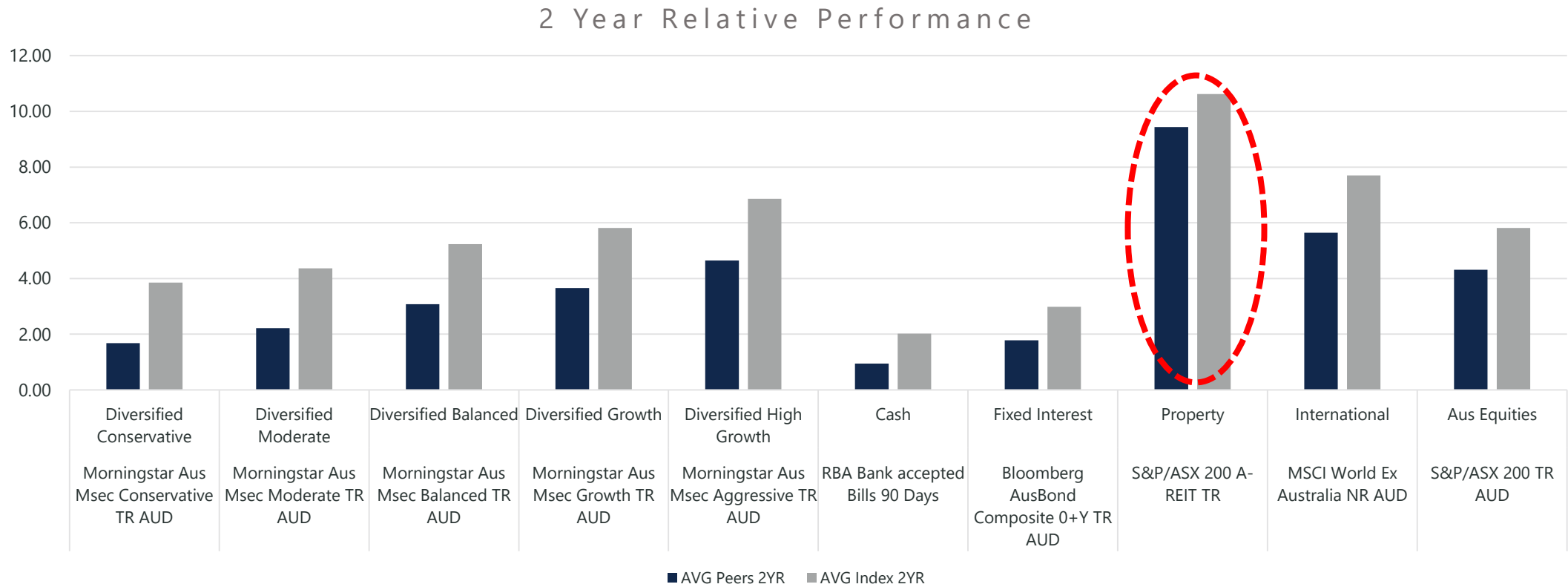
2 Year Relative Performance





# 2 Year Relative Performance

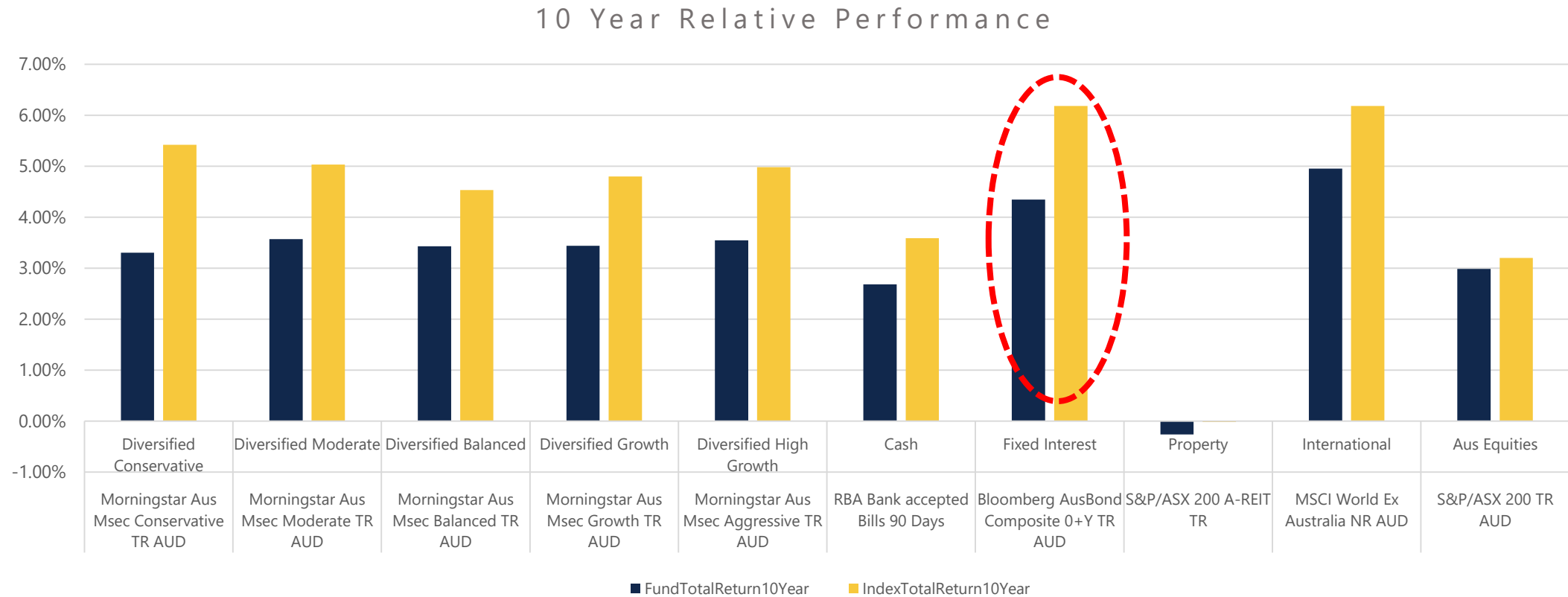
APRIL 2017





# 10 Year Relative Performance

OCTOBER 2017





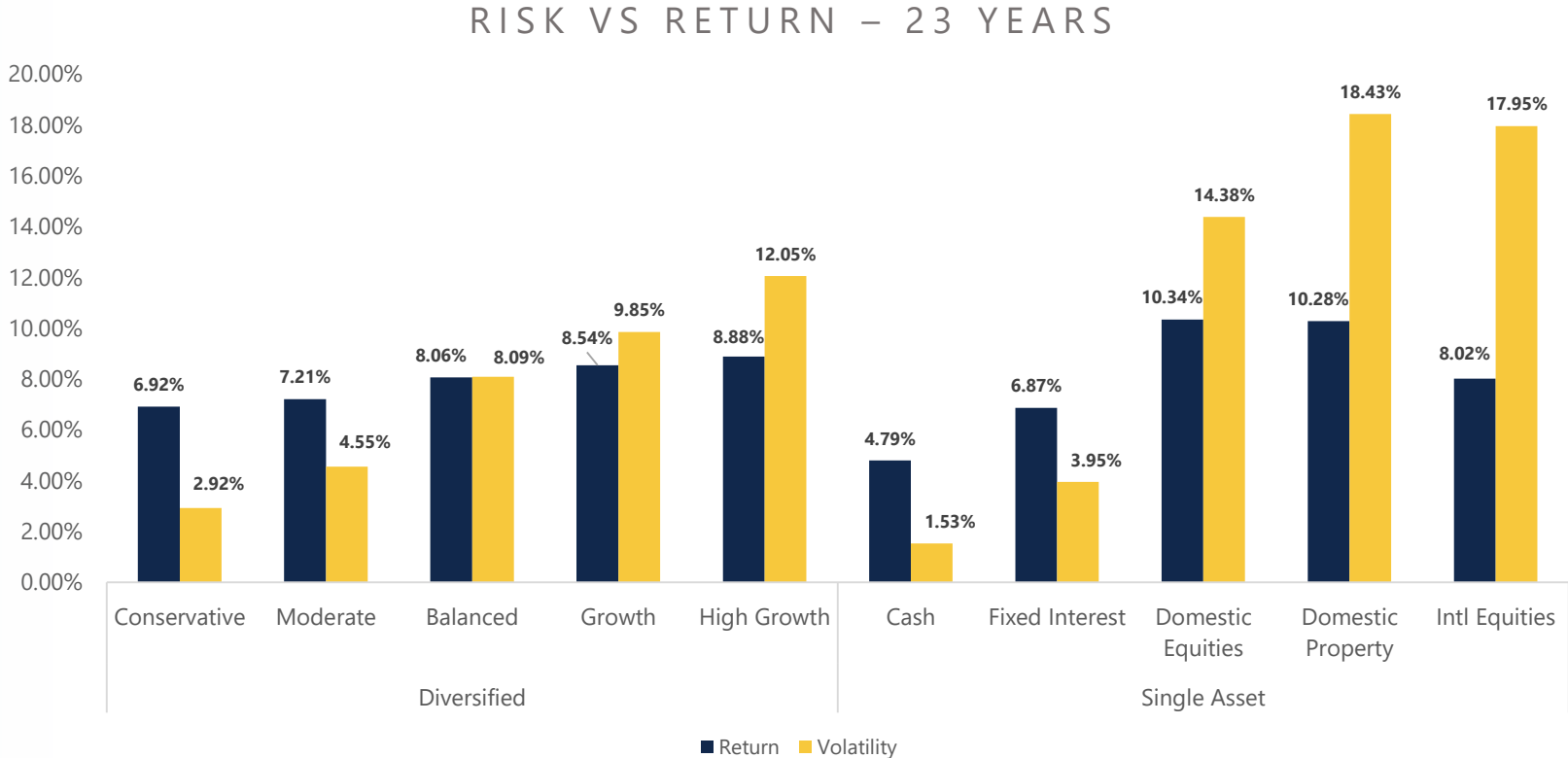


# Sequencing risk?

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.





# 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%

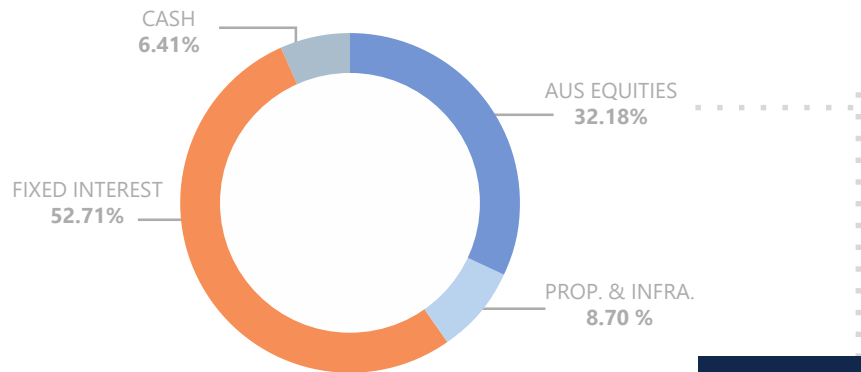
Assumption: Growth Portfolio asset allocation



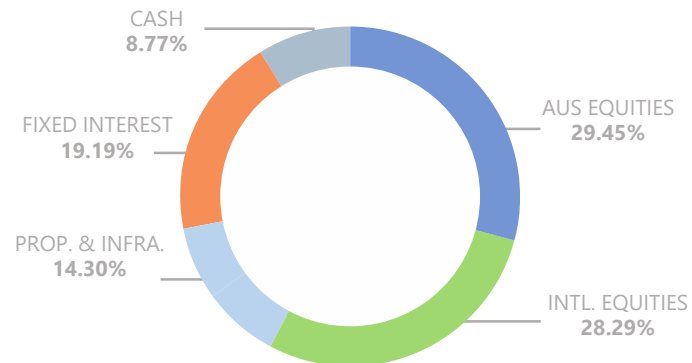
# Portfolio Optimisation

## DIVERSIFIED

### DIVERSIFIED INCOME

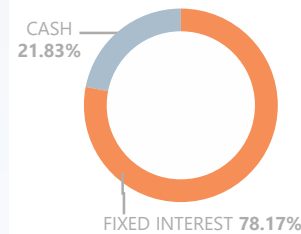


### CORE GROWTH

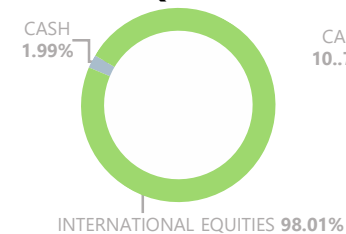


Active asset class allocation, using a mix of ETF's and managed funds

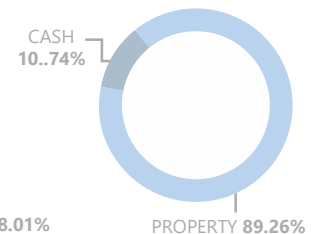
### INTEREST INCOME



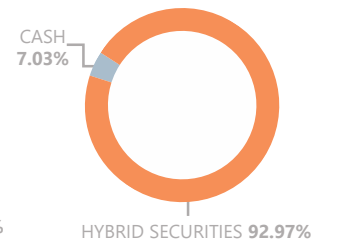
### INTERNATIONAL EQUITIES



### PROPERTY



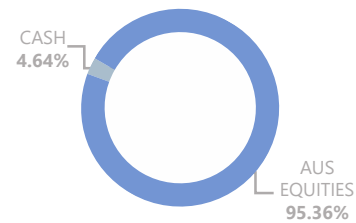
### HYBRID INCOME



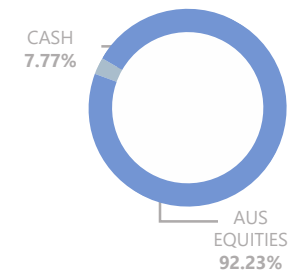
Active asset class allocation, using a mix of ETF's and managed funds

Active management of ASX Hybrid Securities

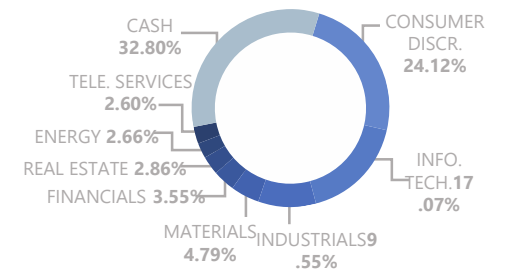
### EQUITY INCOME



### 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

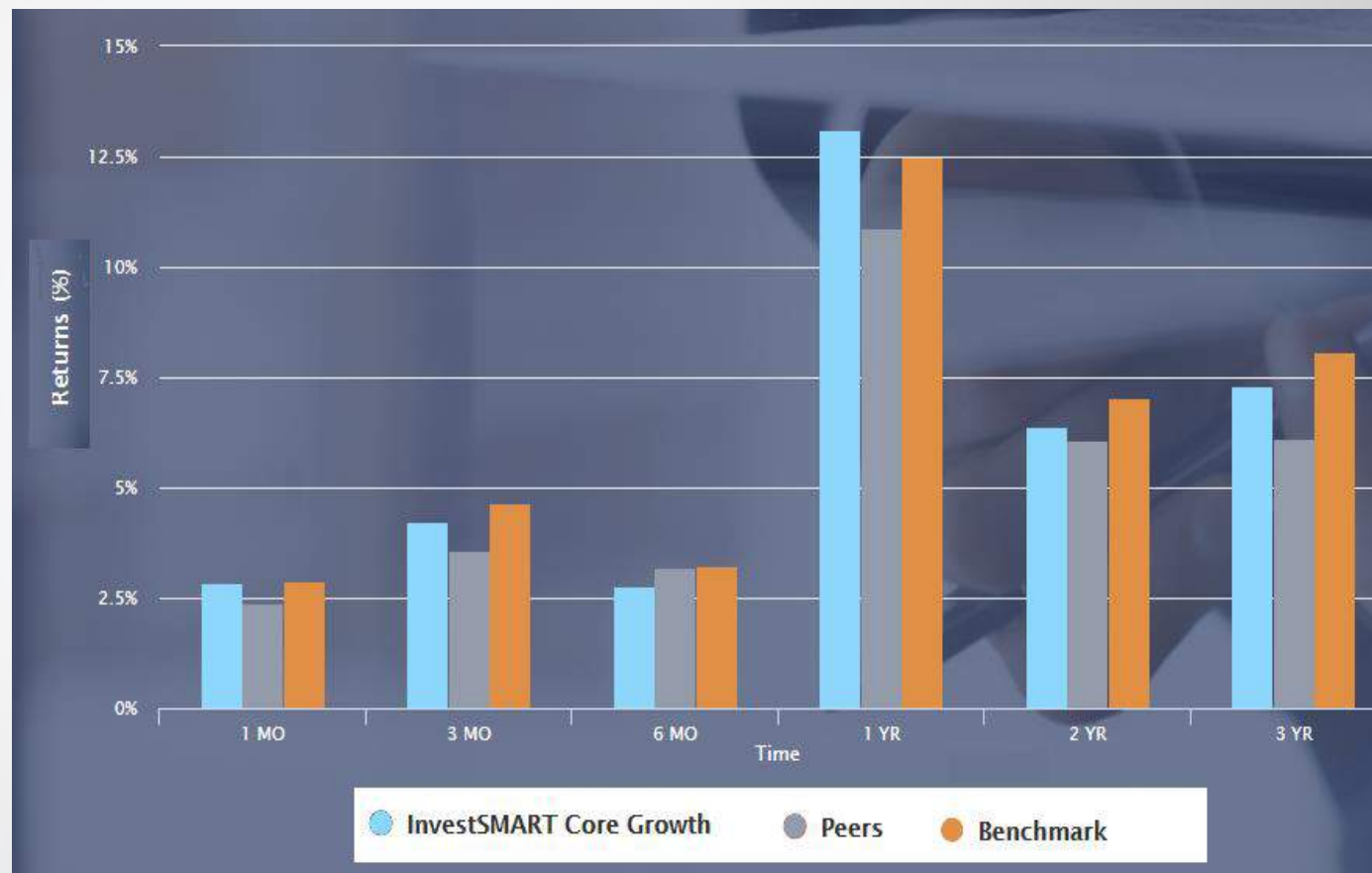
### AVERAGE RELATIVE PERFORMANCE:

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. **S**et achievable goals
2. **M**anage and research
3. **A**ssess & diversify across asset classes
4. **R**ebalance from time to time
5. **T**rack to stay on course





GAURAV SODHI  
DEPUTY HEAD OF RESEARCH

# Putting the Value into Your Portfolio

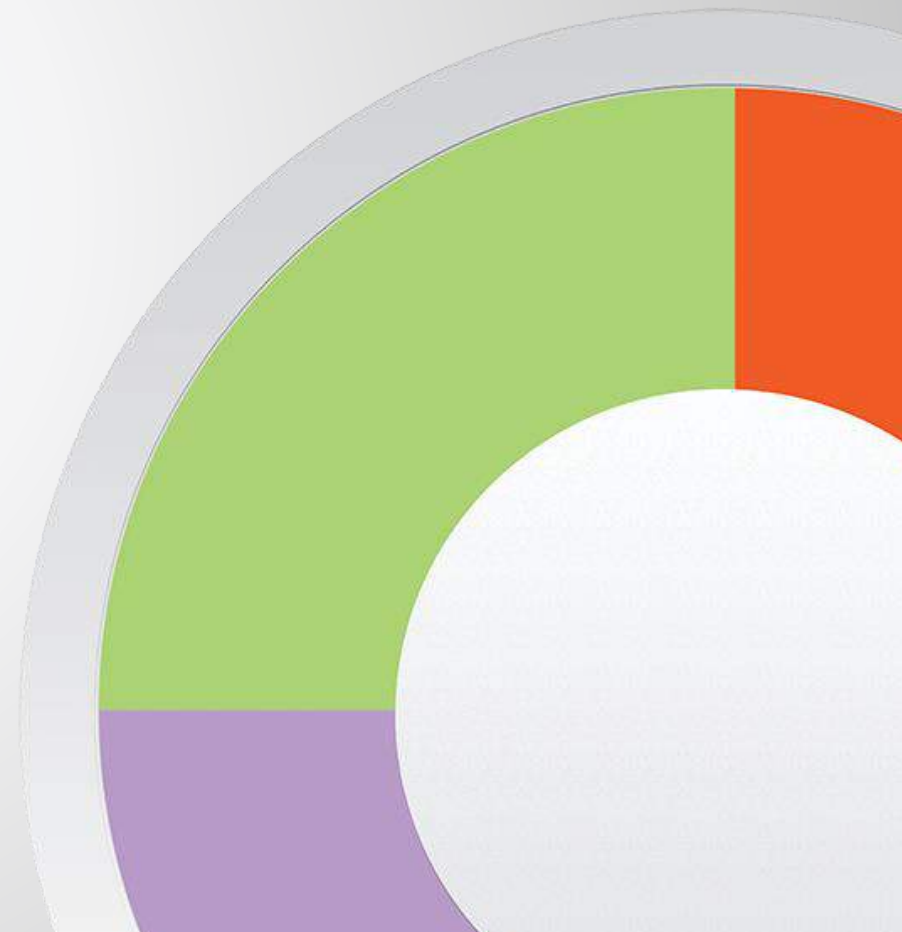






# Focus on Portfolio

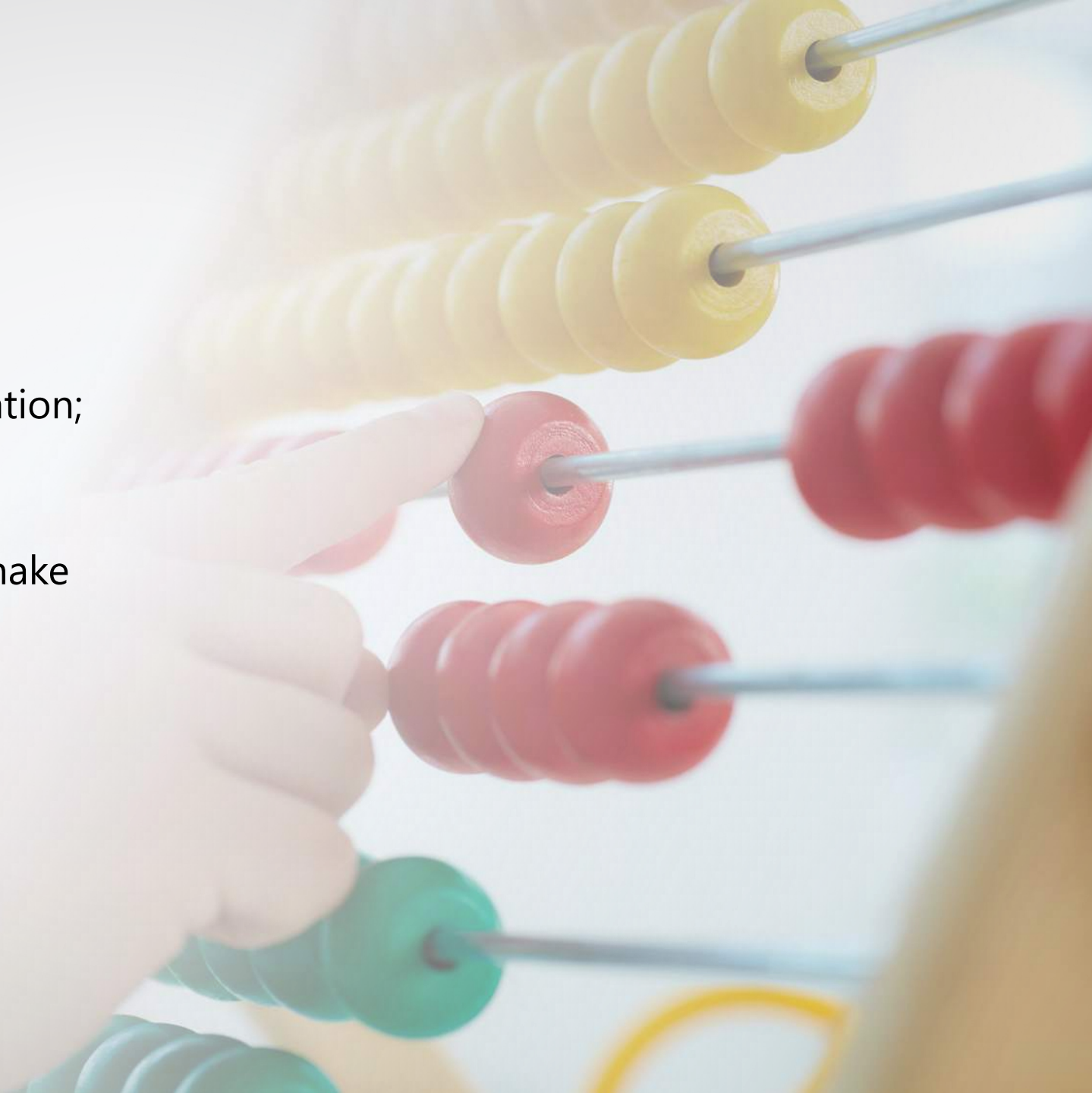
- Portfolio defines the stocks you're holding
- The mission: maintain portfolio that's as undervalued as possible within acceptable levels of risk
- The method: Hold. Buying and selling just a means to an end





# How Many Stocks?

- *Passive approach:* maximum diversification; an index tracker
- *Active approach:* 12–30 holdings will make sense for most active investors







# Why Diversify?

- The Rumsfeld Principle
- Think in probabilities
- It's OK to lose money
- Investing is about process not prediction





# What Are We Trying To Do?

- Buy something for less than it's worth
- Hunt for mispricings
- Look where others aren't
- Employ second order thinking





# amaysim

- Recommended as a Buy below \$2.00
- Telco with \$400m market cap



## DISCLOSURE

- RECOMMENDED AS A BUY
- II GROWTH FUND OWNS IT
- I OWN IT PERSONALLY





# What The Consensus Says ...

- PER of 34x; expensive
- It's just a reseller
- No competitive advantage
- Hostage to Optus







# Our Investment Case

- High incremental margins
- Low capex, high cash
- Cost advantage
- Vital to Optus





# Our Insight

- Not being priced for its potential
- Capital light
- High ROE, high FCF model
- Economics improve as it grows





# Woodside Petroleum

- LNG, oil and gas producer
- \$22bn market cap
- PER 18x

## DISCLOSURE

- RECOMMENDED AS A BUY
- II EQUITY GROWTH FUND OWNS IT
- II EQUITY INCOME FUND OWNS IT







# What The Consensus Says ...

- No production growth
- Dwindling resources
- Low oil price leverage
- Not cheap on earnings basis





# Our Investment Case

- Changes in LNG market make WPL assets more valuable
- Can pursue production growth cheaply
- Potential resources not counted
- Payoff structure is attractive
- High option value







# Our Insight

- Reserve replacement an imperfect measure
- LNG market is changing
- Assets worth more than book
- Low production costs are an advantage





# Summary

- We need to work to become better investors
- All investing is the hunt for mispricings
- Look for opportunity where others aren't







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



# 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	3.2%	8.2%	14.0%	N/A	25.4%
S&P/ASX Small Companies Accumulation Index	6.0%	10.3%	10.6%	14.6%	14.7%
Excess to Benchmark	-2.8%	-2.1%	3.4%	N/A	10.7%

\* Inception date = 1 February 2017





# Finding Ideas

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





# Case Study

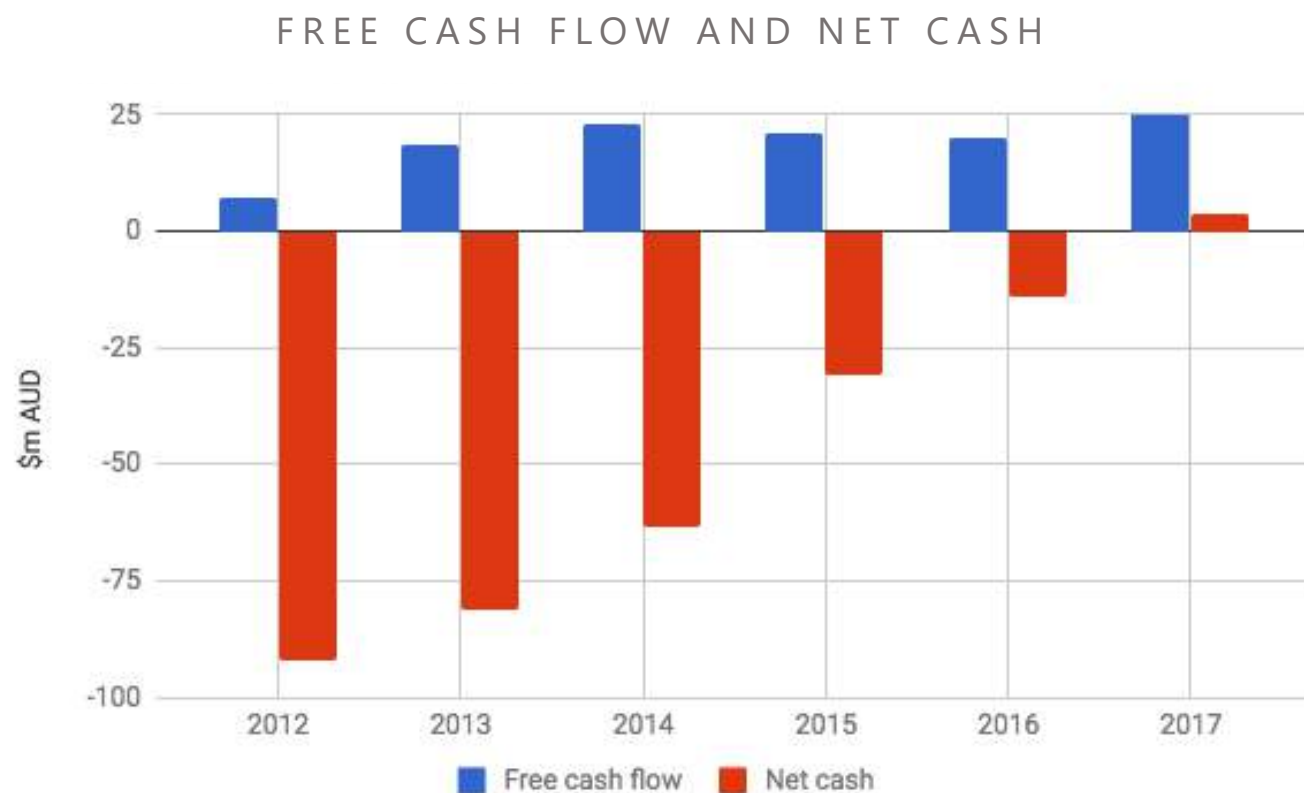
**GLOBAL CONSTRUCTION SERVICES (ASX:GCS)**

- 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

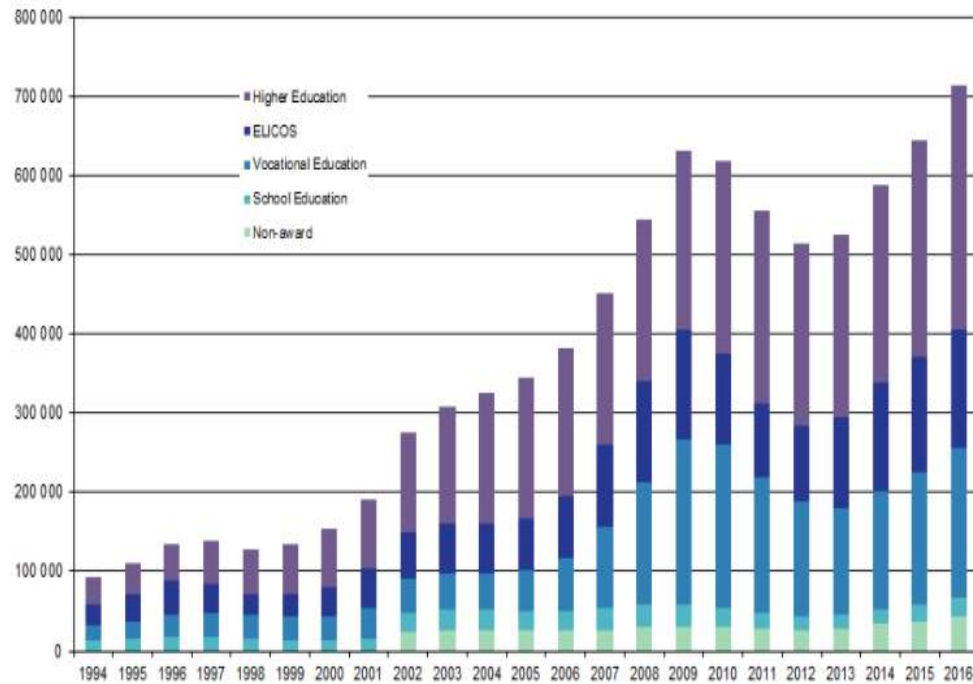




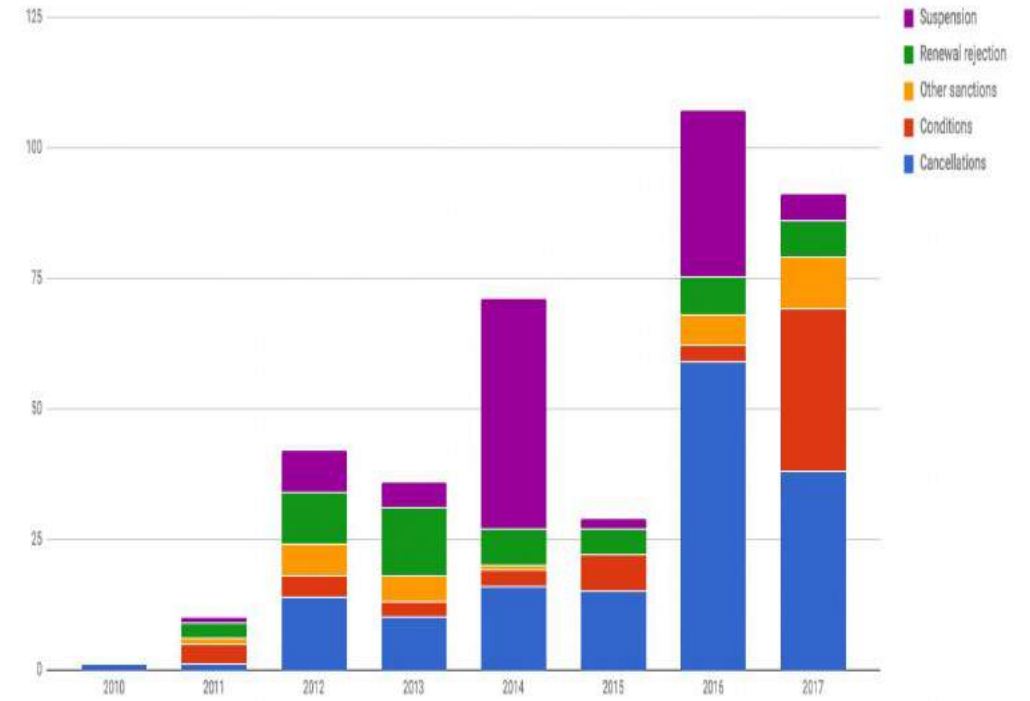


# For Profit Education: Industry Tailwinds But Many Shonks

INTERNATIONAL STUDENT ENROLMENTS IN AUSTRALIA 1994-2016



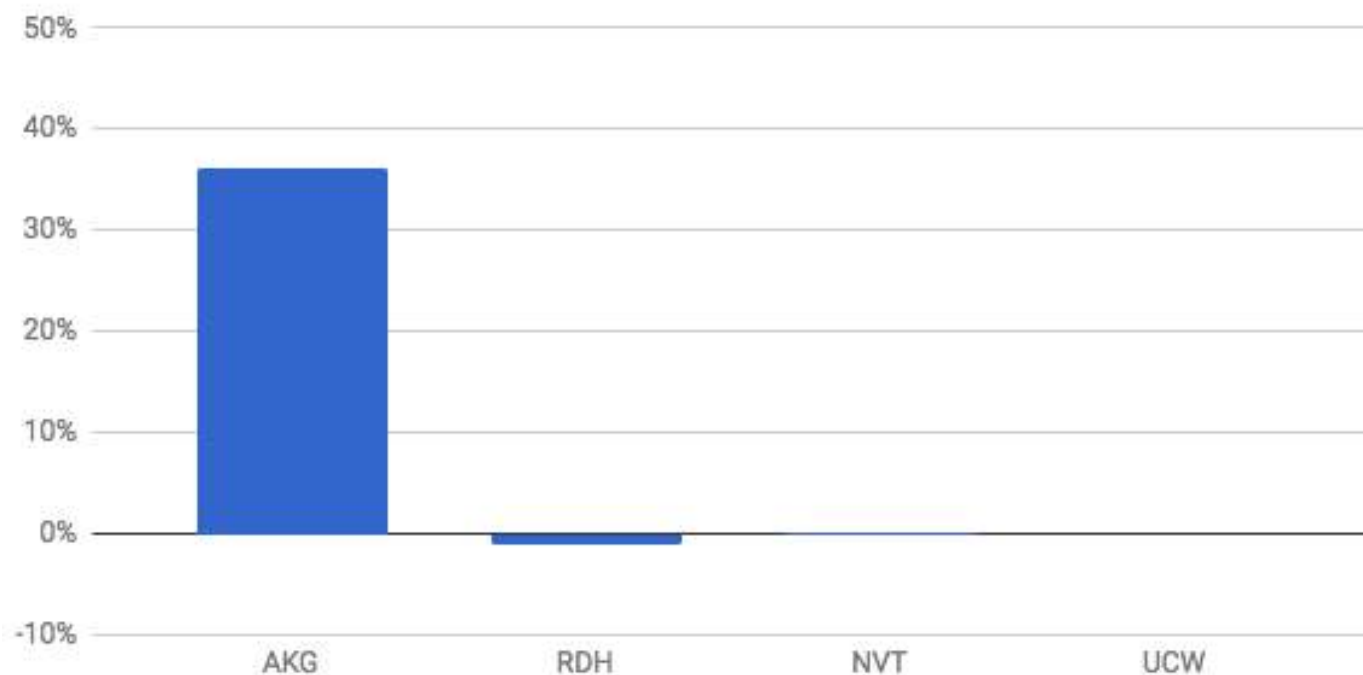
ASQA REGULATORY ENFORCEMENTS





# 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)







# Questions & Answers

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