



INVESTSMART

# Income & Growth Portfolio Update

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### 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

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### 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.**

## What is our edge?

- Long term
- Patient
- Contrarian
- Humble
- Concentrated
- Independent
- Consistent process
- Best returns over biggest fund
- Flexible by market capitalisation



WHERE DO YOU FIND VALUE?

## High quality business

- High insider-ownership
- Long growth runways
- A large discount to intrinsic value

## Special Situations

- New CEO
- Re-capitalised
- Spin-offs
- Hidden assets



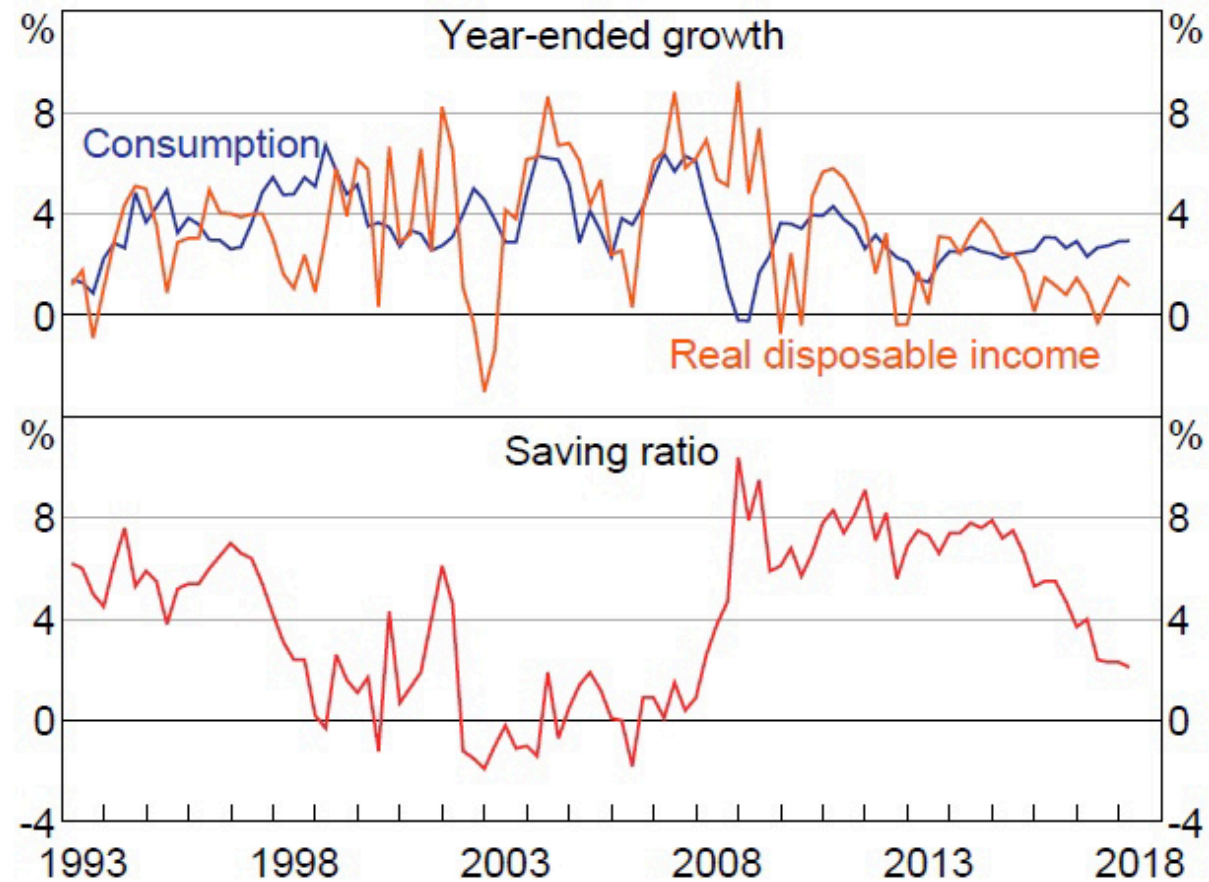


## The 30,000 foot view

- Slowly deflating global credit bubble
- US consumer in excellent health
- Not expecting imminent US recession
- US residential is a long-term opportunity
- Value in emerging markets
- Australian share market at fair value
- Some worrying signs  
(prop prices; debt levels; savings rates)
- Lots of profit downgrades at home & abroad
- Inflation or deflation?

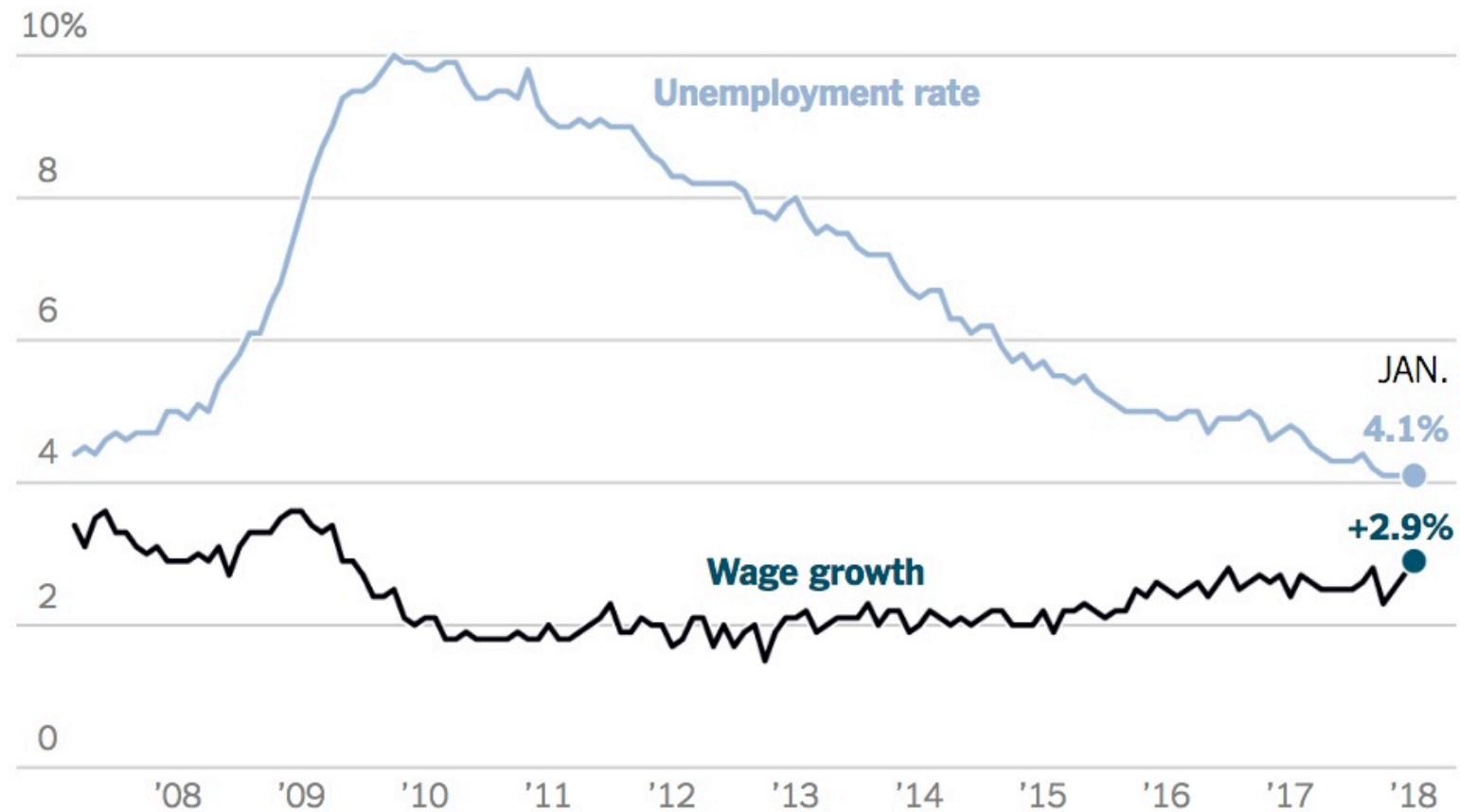


## Household consumption and income\*



\* Disposable income is after tax and interest payments; saving ratio is net of depreciation. Source: RBA via ABS; RBA

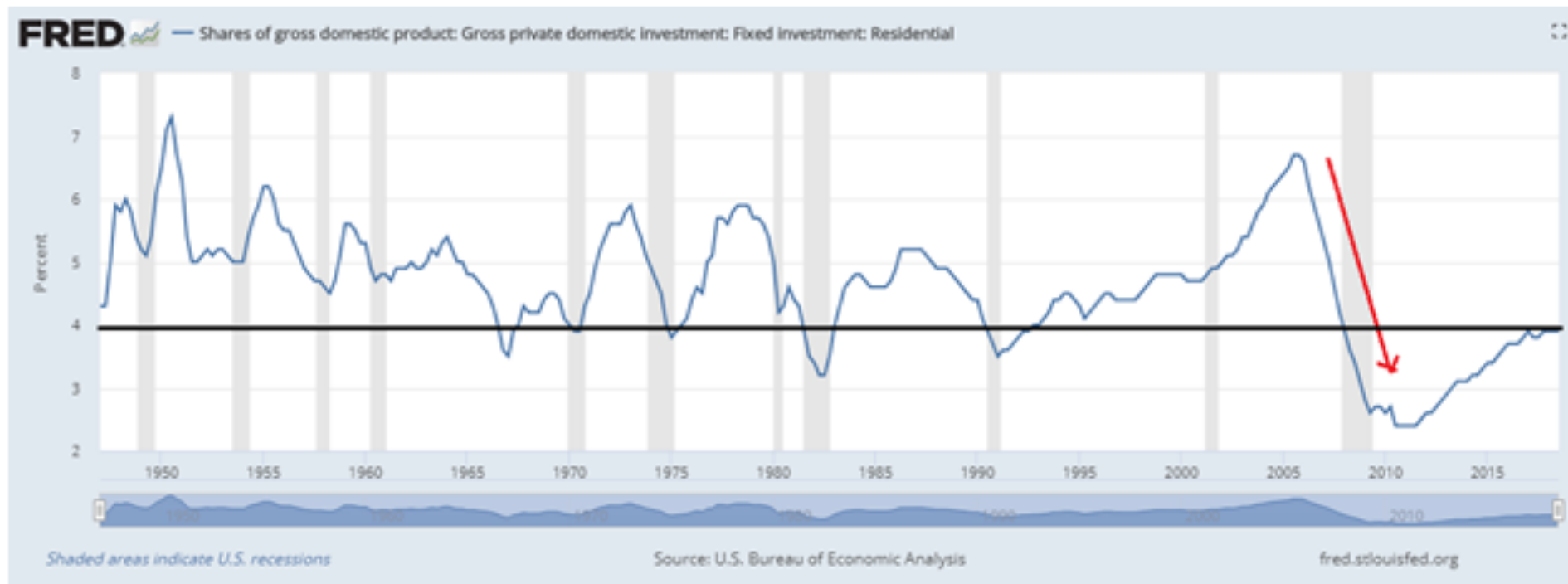
MR MACRO  
US WAGE INFLATION



Source: New York Times via Bureau of Labor Statistics

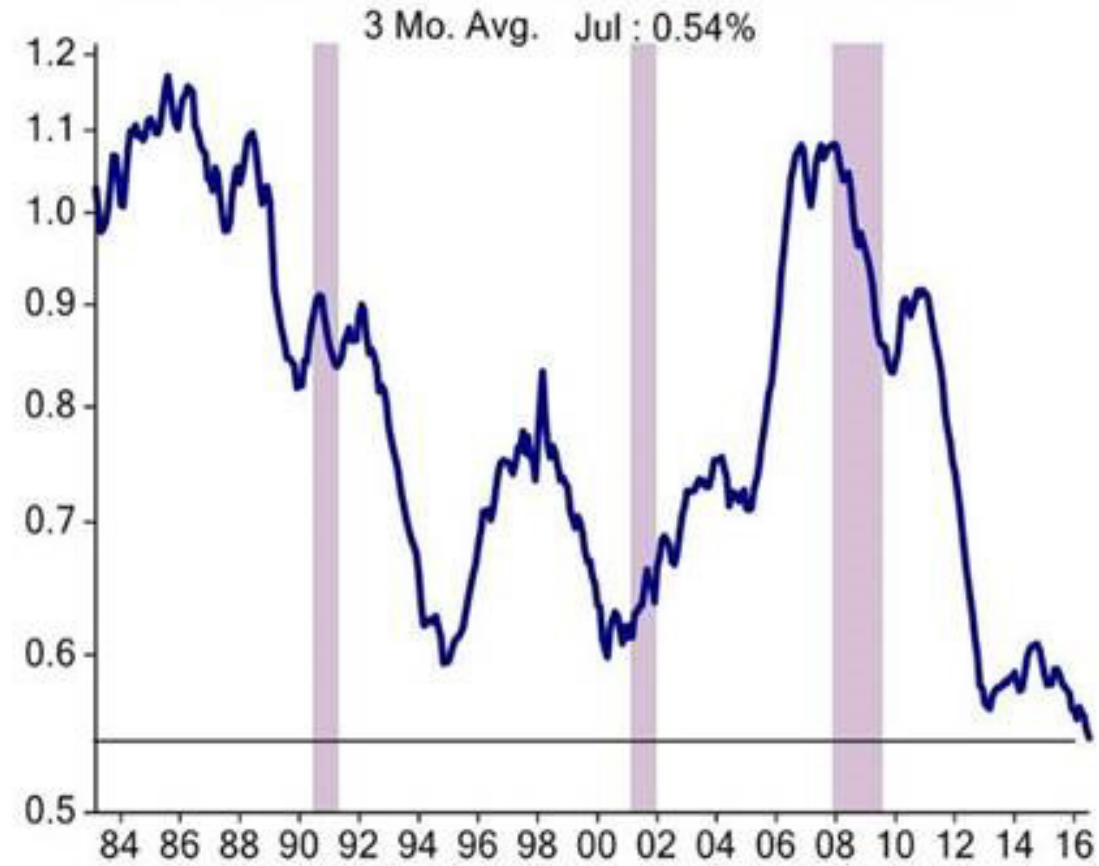
## MR MACRO

### US HOUSING STARTS



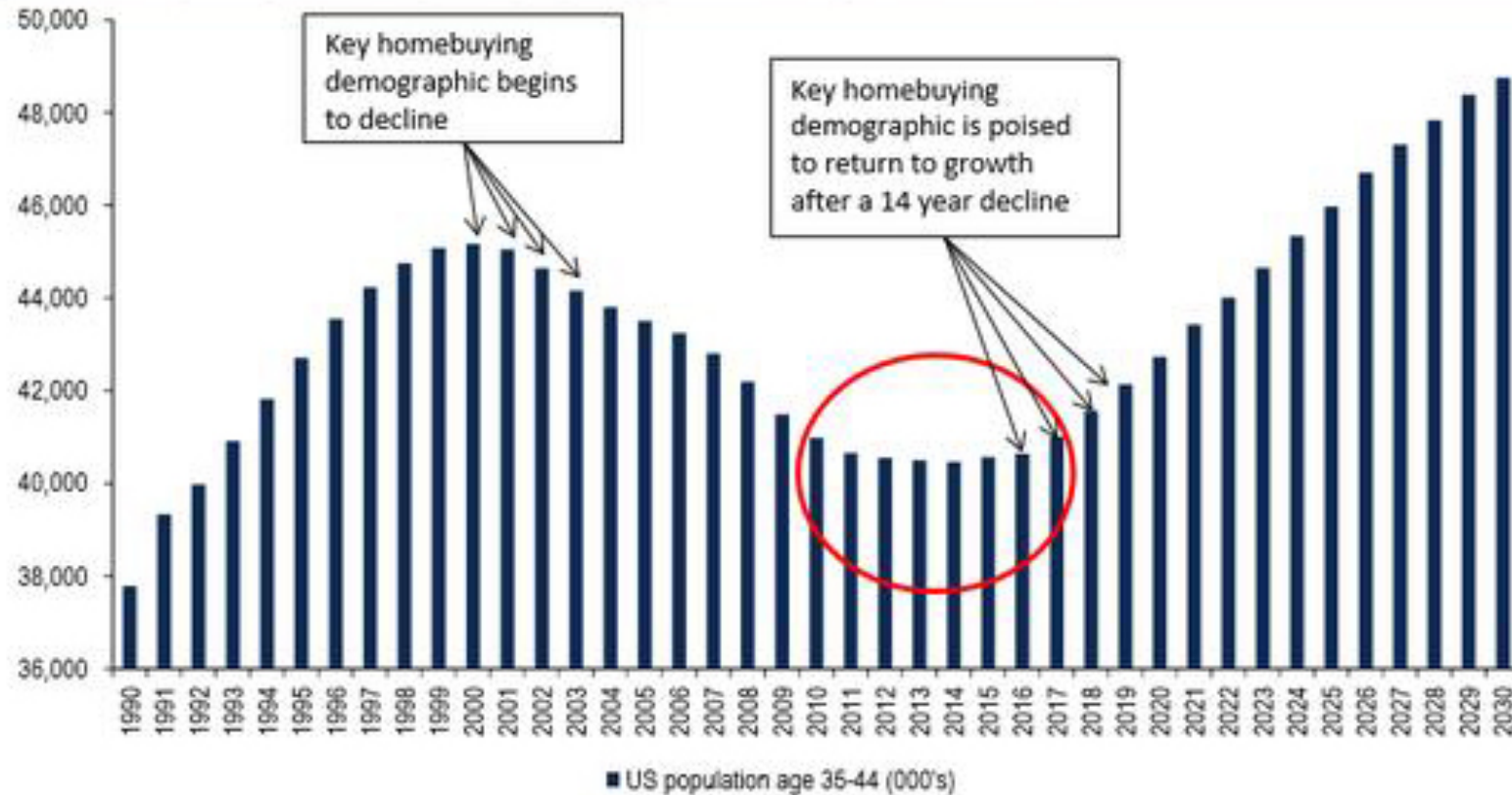


## US existing houses for sale % US population



Source: ISI Group

US population age 35–44 is a key home buying demographic that is set to grow over the next decade



Source: BOA Merrill Lynch Global Research; Euromonitor

## PORTFOLIO SUMMARY

- Risk before return
- Usually = short-term under-performance
- Lessons from 2007-2009
- Portfolios are very different from the index
- Well positioned for returns of capital
- Overseas diversification
- Excellent balance sheets
- Cash is reducing
- Turnover back to normal
- Get the simple things right



## PORTFOLIO SALES

- TPG Telecom
- IOOF
- Ansell
- Wesfarmers
- ASX
- Perpetual
- Virtus & Monash IVF
- James Hardie
- AMP
- GTN
- Trimmed Trade Me, BHP & Woodside



## PORTFOLIO BUYS

- Reliance Worldwide
- Reece
- Clydesdale Bank
- Unibail Rodamco Westfield
- ResMed
- Flight Centre
- Platinum Asset Management
- Frontier Digital Ventures
- Class
- Pinnacle
- Increased Crown, Westpac, CBA & Coles





## Warning Signs

- Management/founder departure
- Insider selling
- Technological obsolescence
- Heavily shorted
- Complicated accounting
- Overseas legal jurisdictions
- Short or risky contracts
- Heavily geared
- Inflated earnings or low reinvestment
- The 10% dividend yield rule



# How to invest

## Equity Income Portfolio

- **Buy on the ASX**

InvestSMART Australian Equity Income Fund (ASX: INIF)

- **Professionally Managed Account**

Intelligent Investor Equity Income Portfolio

[www.investsmart.com.au/invest-with-us](http://www.investsmart.com.au/invest-with-us)

## Equity Growth Portfolio

- **Professionally Managed Account**

Intelligent Investor Equity Growth Portfolio

[www.investsmart.com.au/invest-with-us](http://www.investsmart.com.au/invest-with-us)

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