

ASX Investor Roadshow - Yield

Investing with a steady income stream



Feb-Mar 2009

Disclaimer:

This material contains information only. ASX does not represent or warrant that it is complete or accurate. The information is for education purposes only and any advice should be sought from a professional adviser. If you are seeking advice (including a recommendation or opinion) about a financial product you should consult an Australian financial services licensee. To the extent permitted by law, no responsibility for any loss arising in any way (including by way of negligence) suffered by anyone acting or refraining from acting as a result of this material is accepted by ASX. This disclaimer extends to any private discussions or correspondence with the presenter of this information.

© copyright ASX Operations Pty Limited ABN 42 004 523 782 ('ASXO'). All rights reserved. This publication should not be reproduced, stored in a retrieval system or transmitted in any form, whether in whole or in part, without the prior written consent of ASXO.

Find an Adviser

Visit www.asx.com.au

search by 'find a broker'

1. Find a broker or a planner using the ASX compiled directories

ASX does not recommend individual advisers and provides this service to assist individuals make their own decision on the best source of advice to meet their specific needs.

For tax rulings

visit www.ato.gov.au

This presentation is not to be taken as taxation advice. Instead it should be used as a precursor to further discussions with a qualified taxation consultant.

Agenda

- Introduction to ASX
- Shares
 - Dividends
 - Franking Credits
 - Dividend Reinvestment Plans (DRPs)
 - Calculating Dividend Yield
 - Future Dividends
- Exchange Traded Funds
- Interest Rate Securities
 - Key Terms
 - Types available
- Listed Investment Companies
 - An LIC that provides enhanced yield
 - Options (Buy Write Fund)
- Instalments
 - Doubling yield without margin calls
 - Dividend Yield Play

ASX Background

- 2,217 Australian companies listed
- 85 Overseas companies listed
- Market Capitalisation \$924 billion.
- ASX was formed in 1987 by amalgamation of six independent stock exchanges all with history dating back to the 19th century
- 1st exchange was Melbourne in 1861



ASX

AUSTRALIAN SECURITIES EXCHANGE

Shares

Investing with a steady income stream

Feb-Mar 2009

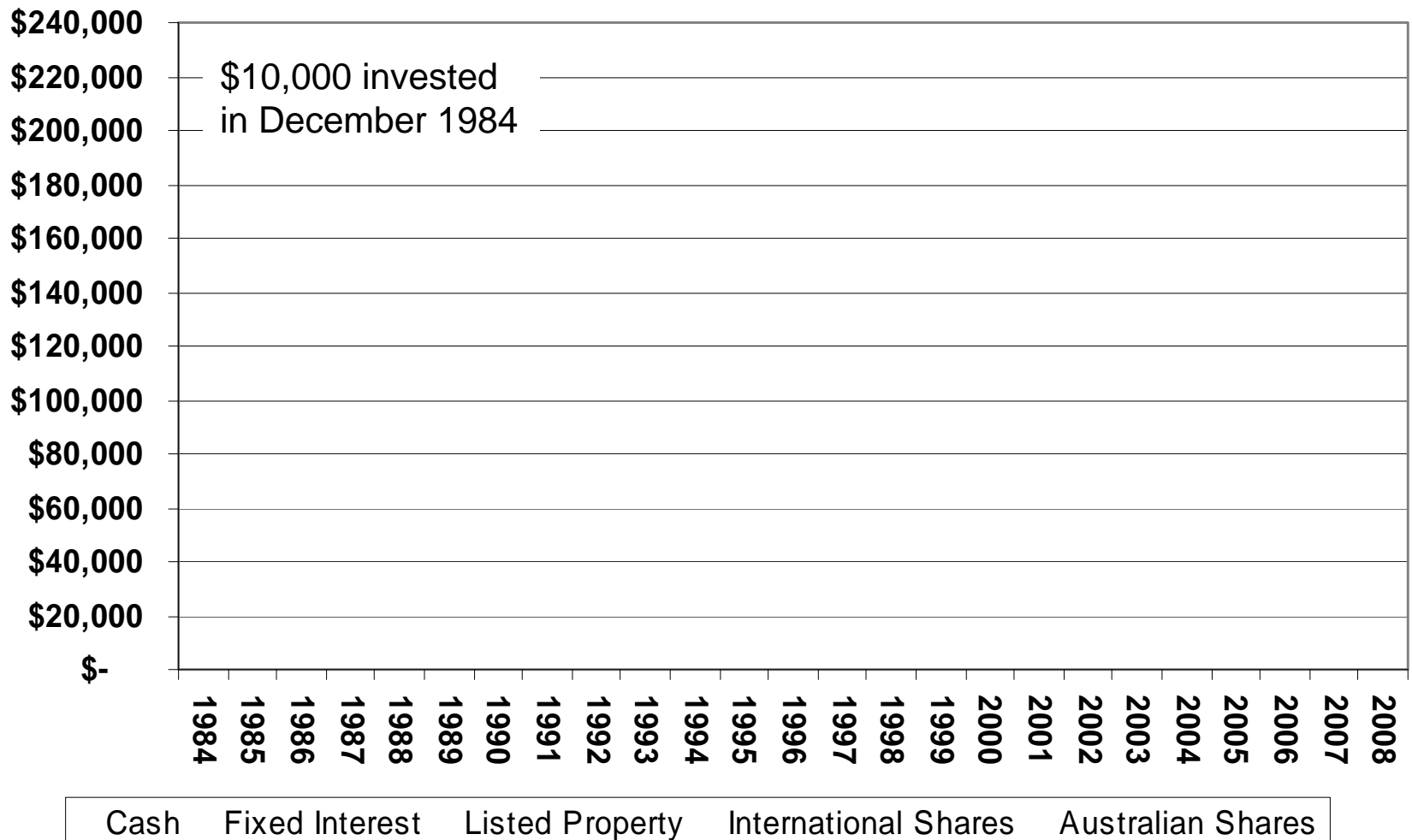
What are shares?

- When you buy shares in a company, you are buying a part of that company. Giving you.
 - Dividends
 - Capital growth (share price rise)
- The company you are investing in benefits by using your money and that of other investors to finance its business or its expansion, without having to borrow money.

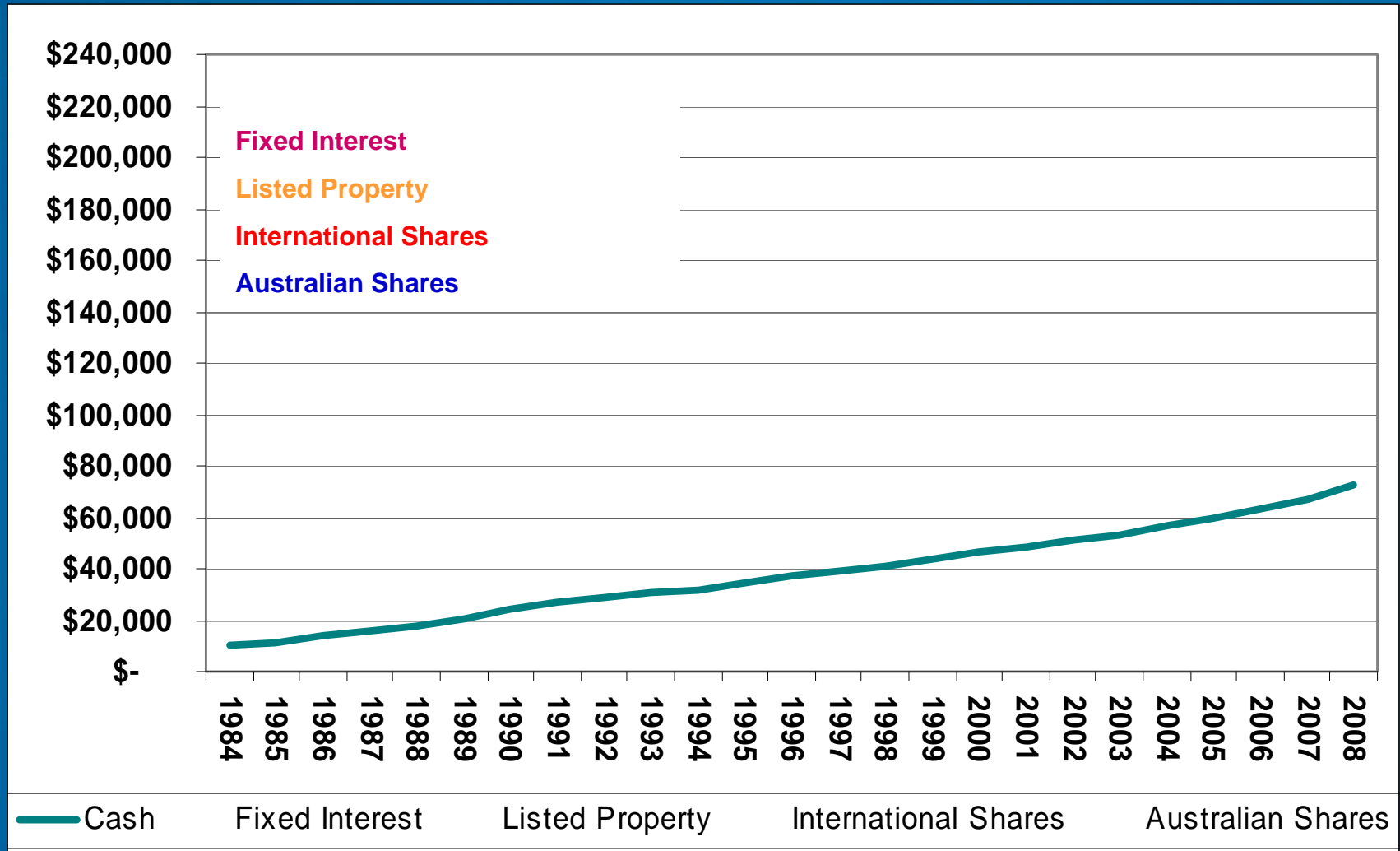
Costs & Risks

- No.1 cost is brokerage
 - Range from \$25 for discount
 - To \$100 or 1.5% for full service
- Capital Gains Tax
 - Profits added to your income
 - 50% reduction if held > 12 months
- Risks
 - Volatility
 - Share prices can fall to zero

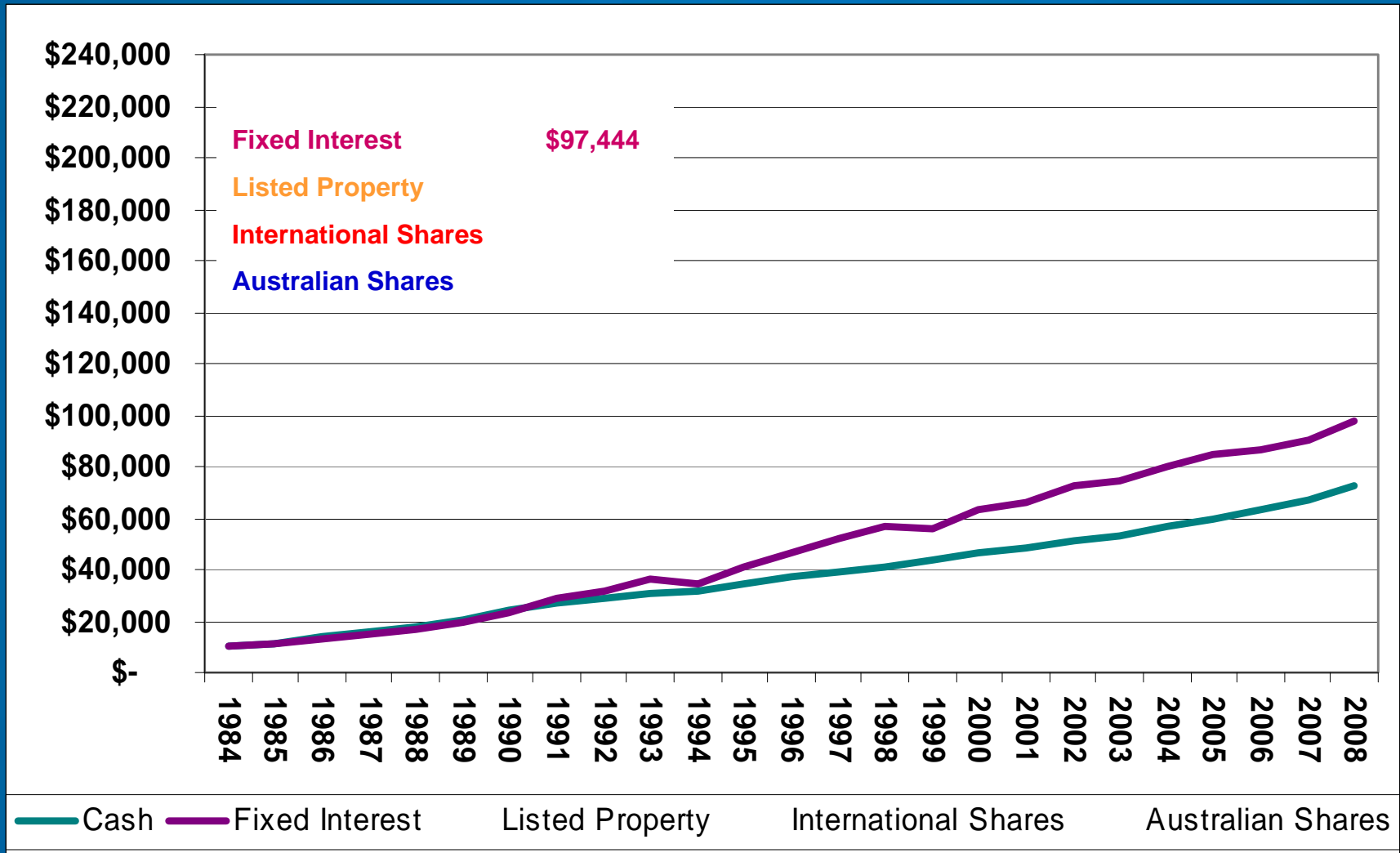
How do shares perform?



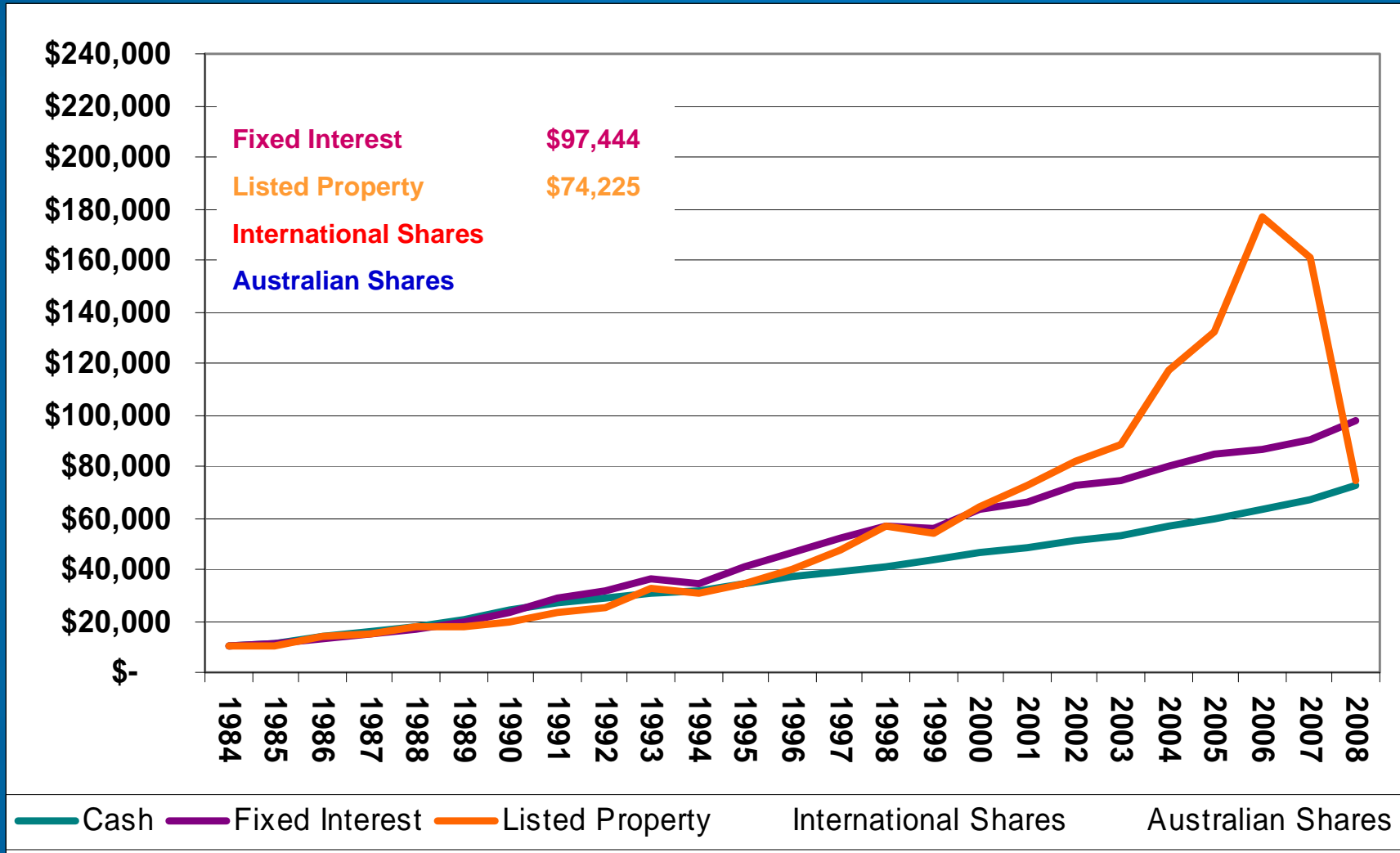
How do shares perform?



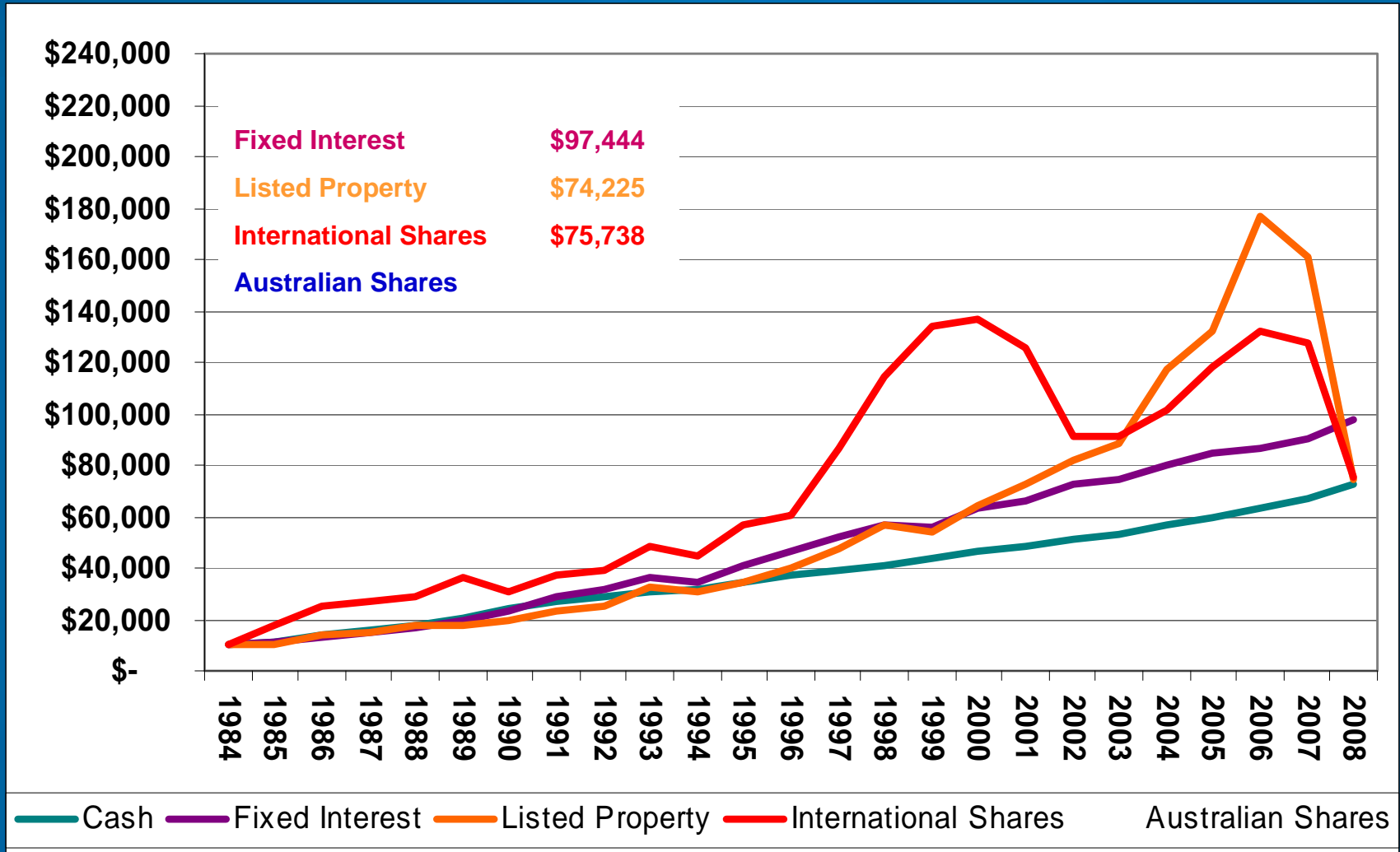
How do shares perform?



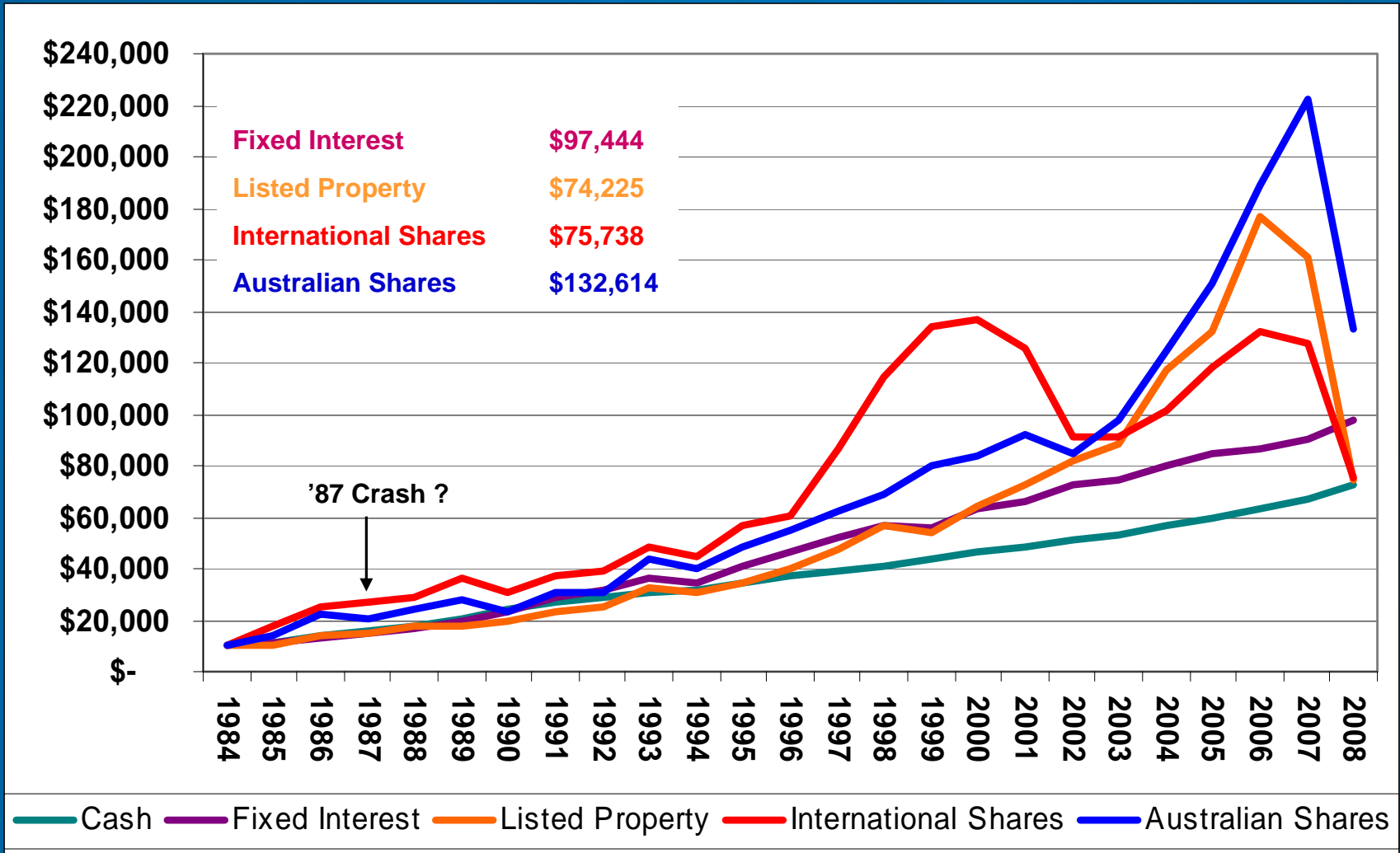
How do shares perform?



How do shares perform?



How do shares perform?

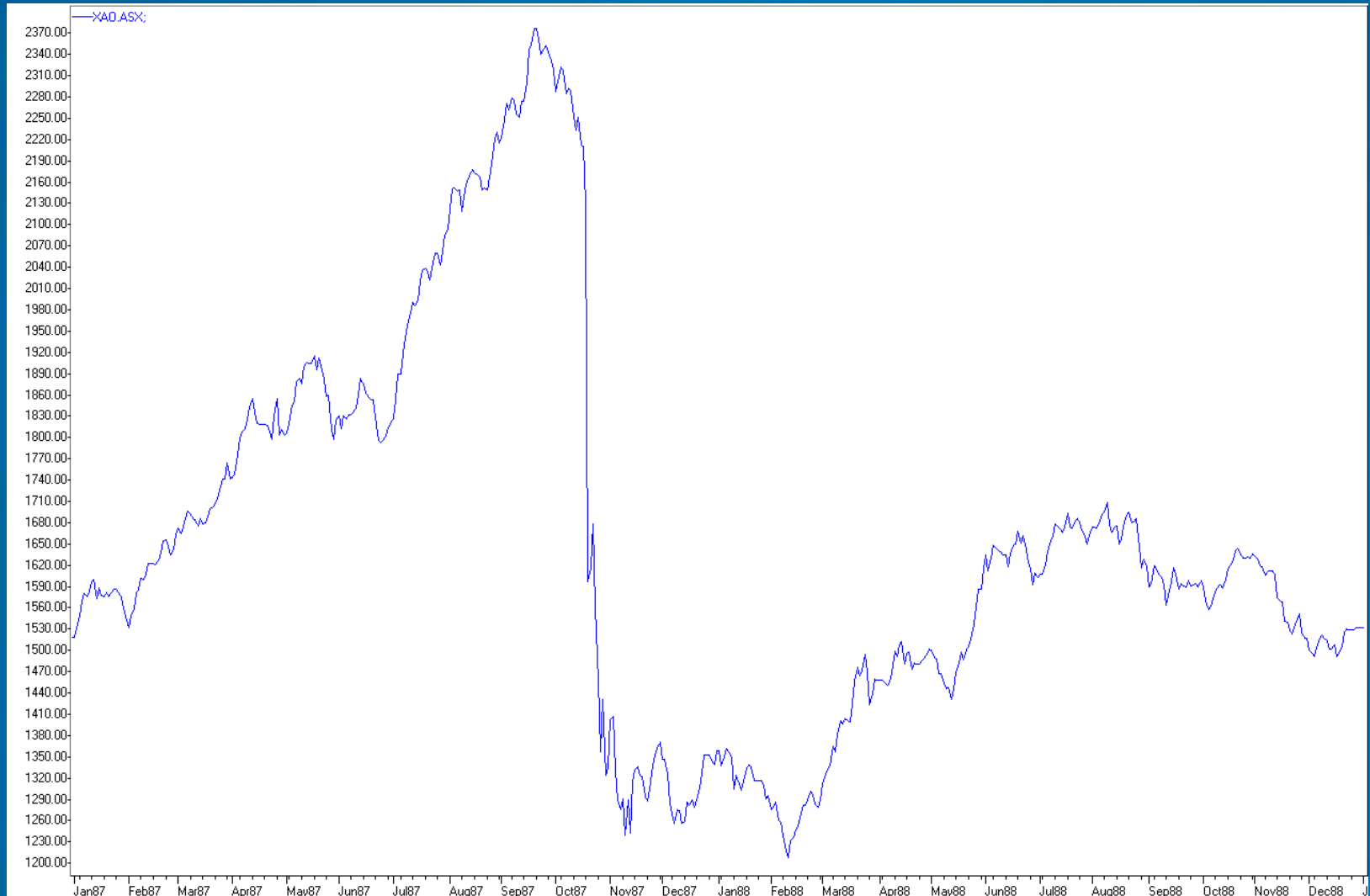


What happened in '87



ASX

AUSTRALIAN SECURITIES EXCHANGE



Shares

- Dividends

What are they?

Shares



- Dividends
 - Identifying dividends on asx.com.au

www.asx.com.au/dividends

Shares

- Franking Credits
 - Provide a credit in tax returns
 - Companies pay tax @ 30%
 - Investors claim this tax already payed by the company as a deduction
- Terms to consider
 - Full Franked
 - Partially Franked

Shares

- Calculating the value of franking credits
 - Grossed up dividend amount
 - Divide dividend received by 0.7
 - \$1.00 fully franked dividend / 0.7
 - \$1.43 value to holder

 - \$0.43 tax deduction per share

Shares

- Dividend Reinvestment Plans (DRPs)
 - Dividend received in shares rather than cash
 - Not available on all shares (see website for a list)
www.afrsmartinvestor.com.au

Pros

- Generally receive shares at a discount to prevailing share price
- Build a small holding to a significant holding over time
- Automatically reinvests for you with no brokerage

Cons

- Complicates Capital Gains Tax
- Increases your exposure to a share
- Losses are greater if the share falls

Shares



- Why dividends make all the difference
- Shares ain't shares
- The Dividend Delusion
- Identifying income stocks

Andrew Page – HUBB Financial Group



ASX

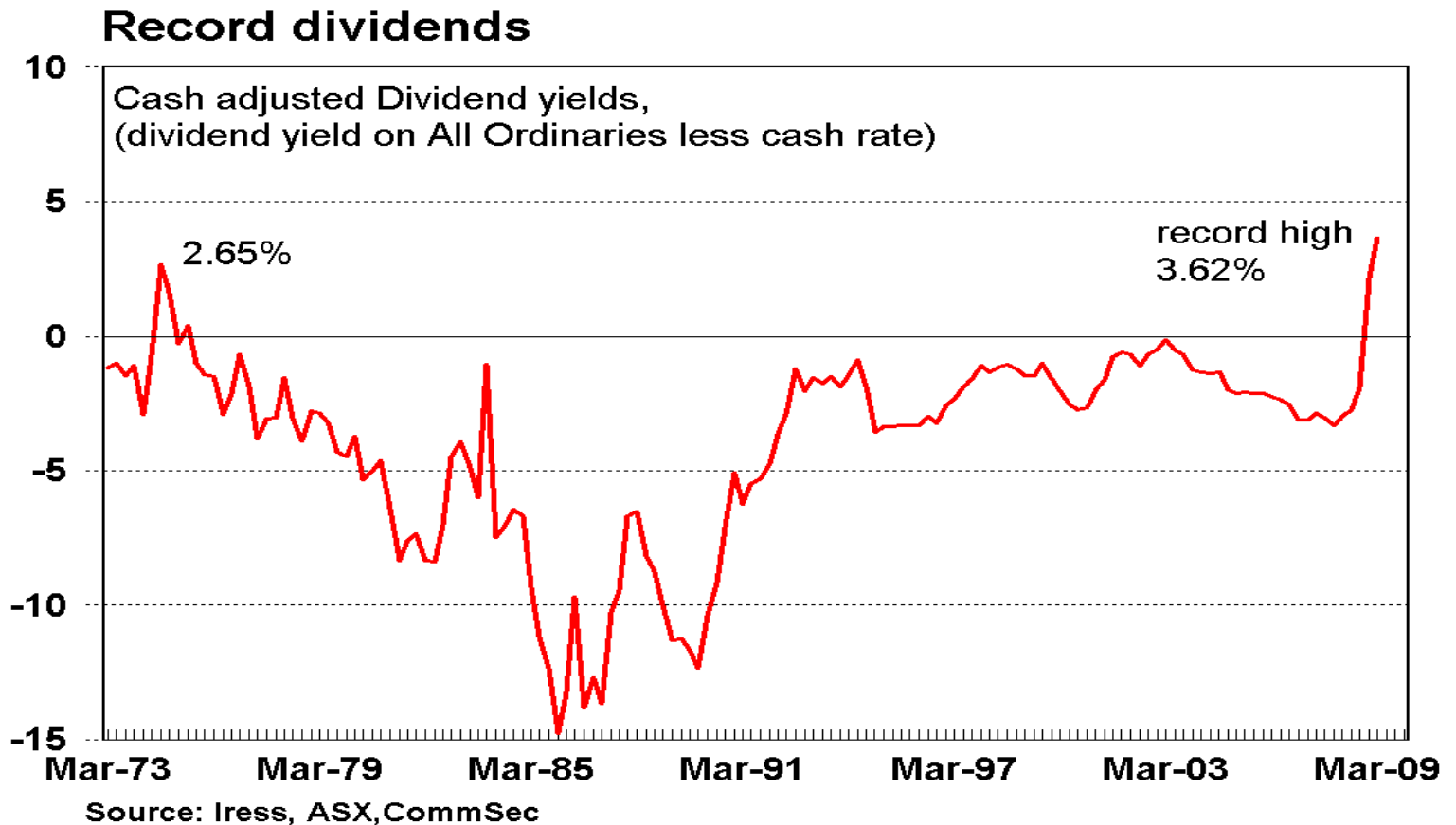
AUSTRALIAN SECURITIES EXCHANGE

Exchange Traded Funds

Graham Smith – State Street

Feb-Mar 2009

Shares





ASX

AUSTRALIAN SECURITIES EXCHANGE

Interest Rate Securities

Investing with a steady income stream

Feb-Mar 2009

Interest Rate Securities

- Key Terms

- Issuer (Government or corporate)
- Face Value (typically \$100)
- Interest Coupon (interest payment paid at regular intervals)
 - Coupons vary according to the type of Interest Rate Security
 - Fixed rate - Coupon is fixed for the life of the bond
 - Floating rate - Coupon varies in line with a benchmark rate, usually at a margin above the bank-bill rate
- Coupon Frequency (usually quarterly or semi-annually)
 - Fixed rate - semi-annual
 - Floating rate – quarterly

Interest Rate Securities

- **Key Terms**
 - Yield (2 types)
 - Nominal yield or coupon rate - is the cash flow investors receive from a bond and does
 - **Yield to maturity - most useful indicator of the value of a bond as it enables comparisons to be made of the return between different types of Interest Rate Securities and interest rate based products**
 - Maturity Date (typically between 2 and 20 years)

Interest Rate Securities

- Key Terms

- Purchase Price or Gross Price (total amount that an investor pays for a bond) forms 2 parts
 - Capital price - price of the bond as estimated by the market based on a number of variables including interest rates, maturity date, ranking and credit quality.
 - Accrued interest - amount of interest accumulated on a bond since the last coupon payment. Immediately following the coupon payment the price should fall by the amount of that coupon payment.
 - Gross Price = capital + accrued interest (ASX quoted price)
- Note: immediately following the coupon payment the price should fall by the amount of that coupon payment.

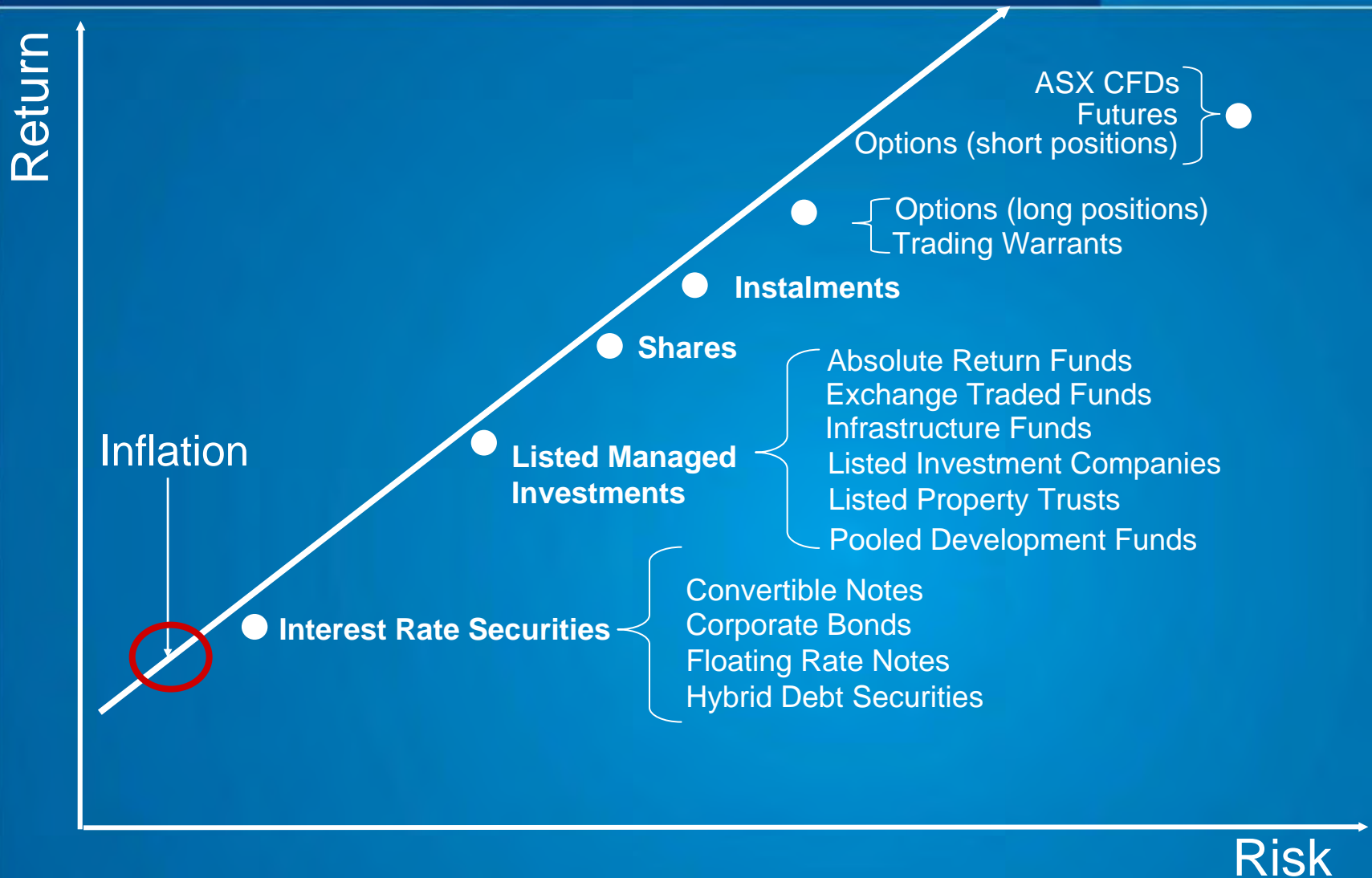
Interest Rate Securities

- Types
 - Bonds – fixed interest with initial capital returned at maturity
 - Floating-rate notes – variable interest with initial capital returned
 - Convertible notes – fixed interest with capital returned in cash or can be converted to shares
 - Hybrid debt securities – fixed or variable interest with initial capital converted to shares
 - Fixed conversion – number of shares received set on issue (Good for rising market)
 - Dollar Value conversion – number of shares received determined at maturity (Good for falling market)

(BEWARE! All types may be unsecured)

[ASX website for prices](#)

The ASX Product Suite





ASX

AUSTRALIAN SECURITIES EXCHANGE

Listed Investment Companies

Investing with a steady income stream

Feb-Mar 2009

Listed Investment Companies



- LICs are not a new concept, Argo Investments listed on ASX for over 60 years
- Currently more than 60 LICs listed on ASX covering a range of sectors including;
 - Australian & International shares
 - Private equity
 - Specialist sectors such as wine and resources
- Low cost investment, the MER of traditional LICs between 0.15%-1.00% pa
- LICs may have up to 200 stocks in their portfolios

LIC Key Features & Benefits



- Taxation advantages, dividends yields are generally between 3-5% (fully franked)
- CGT credits may be passed through to investors
- Tend to be stable investments in volatile markets
- Benefits of being listed on ASX
- Are closed-end vehicles meaning LICs may trade at a discount or premium to NTA (Net Tangible Asset)

Listed Investment Companies



- Aurora Funds Management
 - Aurora Sandringham Dividend Income Trust
 - Aurora Buy Write Income Trust
 - Extra returns over and above dividends with 'covered calls'

Simon Lindsay - Aurora



ASX

AUSTRALIAN SECURITIES EXCHANGE

Instalments

Investing with a steady income stream

Feb-Mar 2009

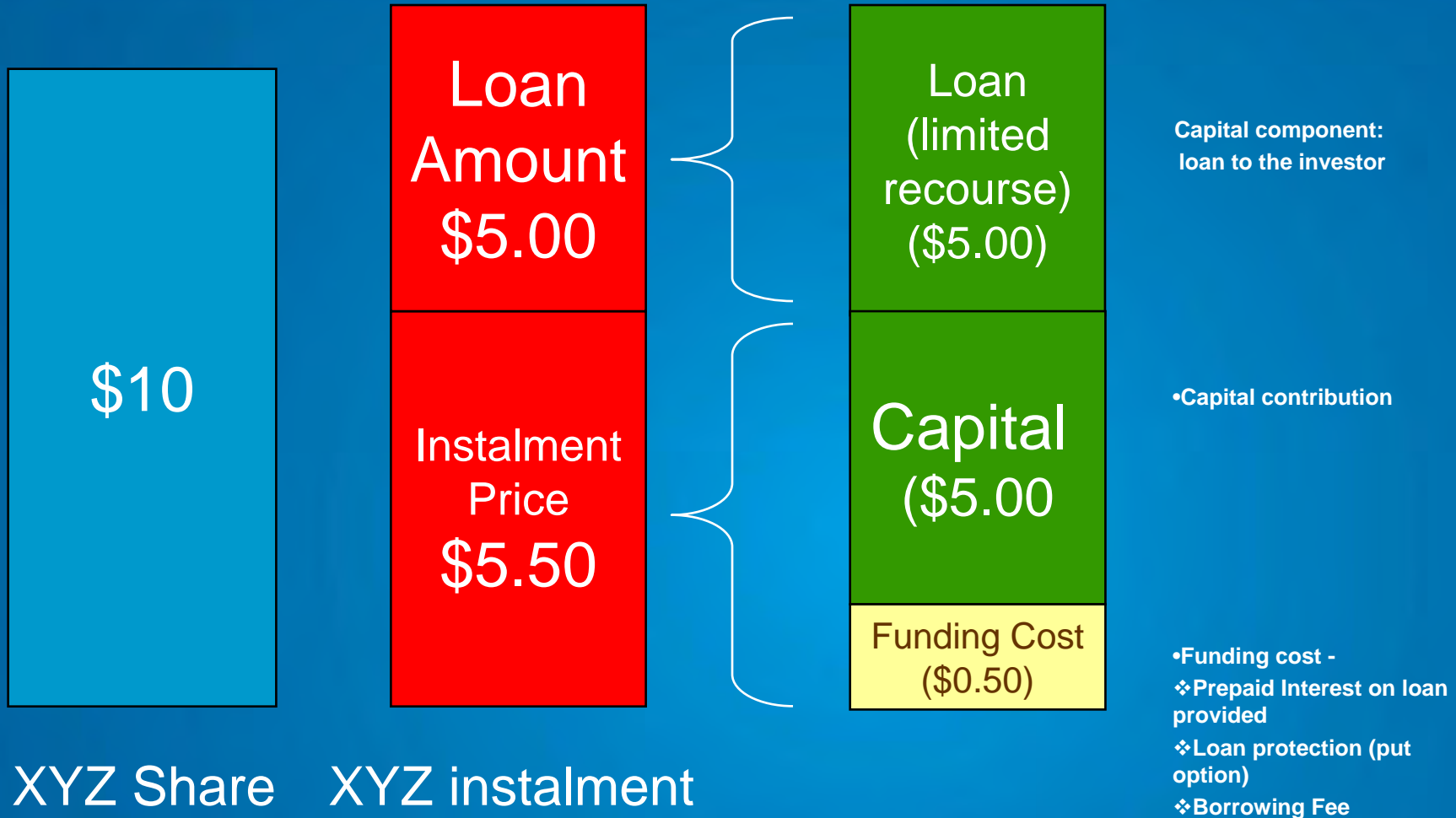
ASX Quoted Instalments



- Similar to Telstra Instalment receipts
- Instalments allow you to gain full exposure to a share with **part payment now** and an **optional final payment later**
- The holder of an instalment is entitled to all **dividends, distributions** and **franking credits** following first payment.
- Generally issued between 1 to 15 years by a financial institution
- Tradable on-market (ASX) through a broker
- Offered over 'blue chip/top100' ASX listed securities including individual shares, LICs, ETFs etc
- Eligible form of gearing for Self Managed Super Funds (SMSF)



Pricing an Instalment



Scenarios - share price rise

- At maturity the share price is \$20
- Instalment now valued at \$15
- Loan amount remains \$5.00
- The instalment's loan amount is fixed, therefore the value of the instalment will increase by the same amount (minus the decay of the funding cost) in absolute terms.
- Cost to exercise = \$5.00 loan
- Total cost =

$$\begin{array}{r} \$ 5.50 \text{ initial payment} + \\ \$ 5.00 \text{ loan} \\ \hline \$10.50 \end{array}$$
 to buy a \$20.00 share



XYZ Share



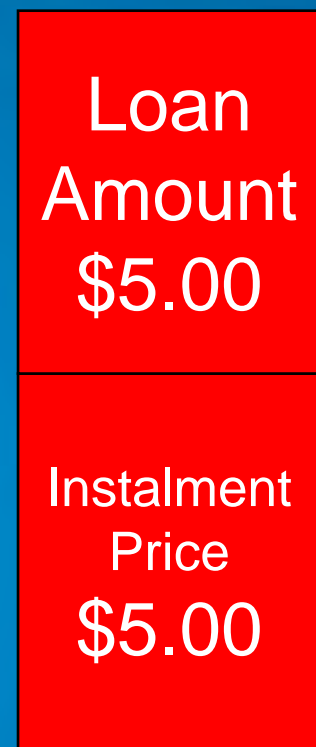
XYZIMM

Scenarios - share price flat

- At Maturity the share price is unchanged
- Instalment value falls to \$5.00
 - Funding decay occurs
 - Prepaid interest
 - Borrowing fees
- Loan amount remains \$5.00
- No Margin Call
- The funding decay may be claimed as an interest deduction.



XYZ Share



XYZIMM

Scenarios - share price falls

- If the share price is \$2 at maturity
- Instalment valued at \$0.00
- Loan amount remains \$5.00
- No Margin Call
- The loan amount is a limited recourse loan.
- No obligation to repay the loan amount, irrespective of the share price performance (up, down, or sideways).
- You walk away with a capital loss and claim the funding cost as a tax deduction.

\$2.00

XYZ Share

Loan
Amount
\$5.00

Instalment
Price
\$0.00

Identifying an Instalment

Instalment Coding: "BHP SMA"



ASX
AUSTRALIAN SECURITIES EXCHANGE

Warrants Markets									
TRADED POSITIONS FOR WEDNESDAY, JULY									
ASX CODE	Ex Price	Expiry Date	Conv Ratio	Bid	Ask	Last Sale	Chg +/-	Vol	100s
Equity Call Warrants									
Aust Gas Light Last Sale Price \$17.47									
AGLWMC	18.00	21/12/06	4:1	.305	.31	.315	-0.5	200	
Aristocrat Leisure Last Sale Price \$12.80									
ALLWOG	14.00	27/07/06	4:1			.088	-21.2	38	
AMP Ltd Last Sale Price \$9.13									
AMPXMJ	7.49	27/07/06	.96:1	1.815	1.845	1.90	+35	50	
AMPXOF	8.00	28/09/06	1:1			1.45	+8.5	400	
AMPWMB	9.10	26/10/06	3:1	.21	.22	.22	-0.5	740	
ANZ Banking Grp Last Sale Price \$26.78									
ANZXMB	23.94	27/07/06	1:1	2.96	3.22	2.86	-5	20	
ANZWOE	25.50	27/07/06	4:1		.46	.38	+4	30	
ANZWOF	27.00	27/07/06	4:1			.155	+1.5	50	
ANZWMF	28.50	27/07/06	5:1	.006	.03	.012	+0.2	400	
ANZXOH	24.00	28/09/06	1:1			3.36	-19	100	
ANZWOH	26.00	28/09/06	4:1		.50	.485	+0.5	600	
ANZWMG	27.00	28/09/06	5:1	.235	.245	.245	+2.5	310	
Alumina Ltd Last Sale Price \$7.08									
AWCWMI	7.50	28/09/06	3:1	.12	.13	.125	+1	1450	
AWCXMG	6.00	26/10/06	1:1	1.295	1.325	1.38	-	1000	
BHP Billiton Ltd Last Sale Price \$28.80									
BHPVOO	27.00	27/07/06	4:1		.90	.56	-6	168	
BHPWMI	28.00	27/07/06	4:1	.385	.395	.41	-7	446	
BHPVOA	29.00	27/07/06	4:1			.245	-6.5	8730	
BHPWON	30.00	27/07/06	4:1	.135	.17	.135	-4.5	3134	
BHPVOB	31.00	27/07/06	4:1	.08		.083	-4.2	1120	
BHPVOC	32.00	27/07/06	4:1		.062	.056	-1.9	805	
BHPYOA	22.00	24/09/06	1:1			7.50	+16	100	

BHP: Identifies the underlying security

S The 4th letter indicates the type of warrant
 I or J = instalment,
 E = endowment,
 X or Y = exotic,
 S = structured investments & SFI
 W or V = trading
 K or L = MINIs

M The 5th letter identifies the issuer e.g. M = Macquarie

A The 6th letter identifies each series

- www.asx.com.au/warrants and select understanding warrant codes

Risks of Instalments

- Instalments offer a greater level of leverage compared to the underlying securities.
 - Risk management is essential
 - The higher the level of gearing the higher the risk
 - The possibility that the interest costs (on the loan) may be higher than the investment returns
- Understanding the product is the key to success – gearing, relationship to underlying, dividends.
- The liquidity of instalments is governed by the liquidity of its underlying not the number of instalments traded.

Dividend Yield Play

- Short term trading strategy
 - generate income on a regular basis throughout the year
- Substitute instalments for shares
 - Use less capital for same income = approx. 2 x yield
- Choose the right instalment
 - Structure
 - Gearing
 - Time to expiry

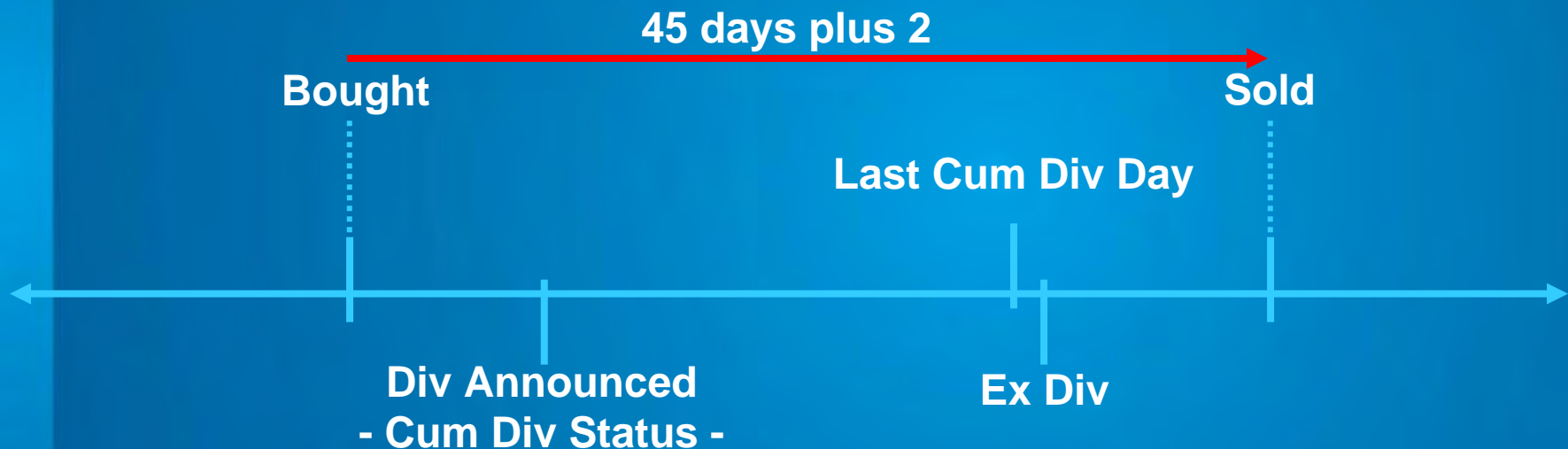
Dividend Yield Play

- Plan ahead
 - Which stocks and when dividends announced
 - Research
 - Estimated dividends
 - Change to company, industry, economy
 - Stock selection
 - Allow sufficient time
 - Buy before dividend announcement
 - Sell after price recovery
 - Understand the impact of the “45 day rule”

Franked Dividends – 45 day rule



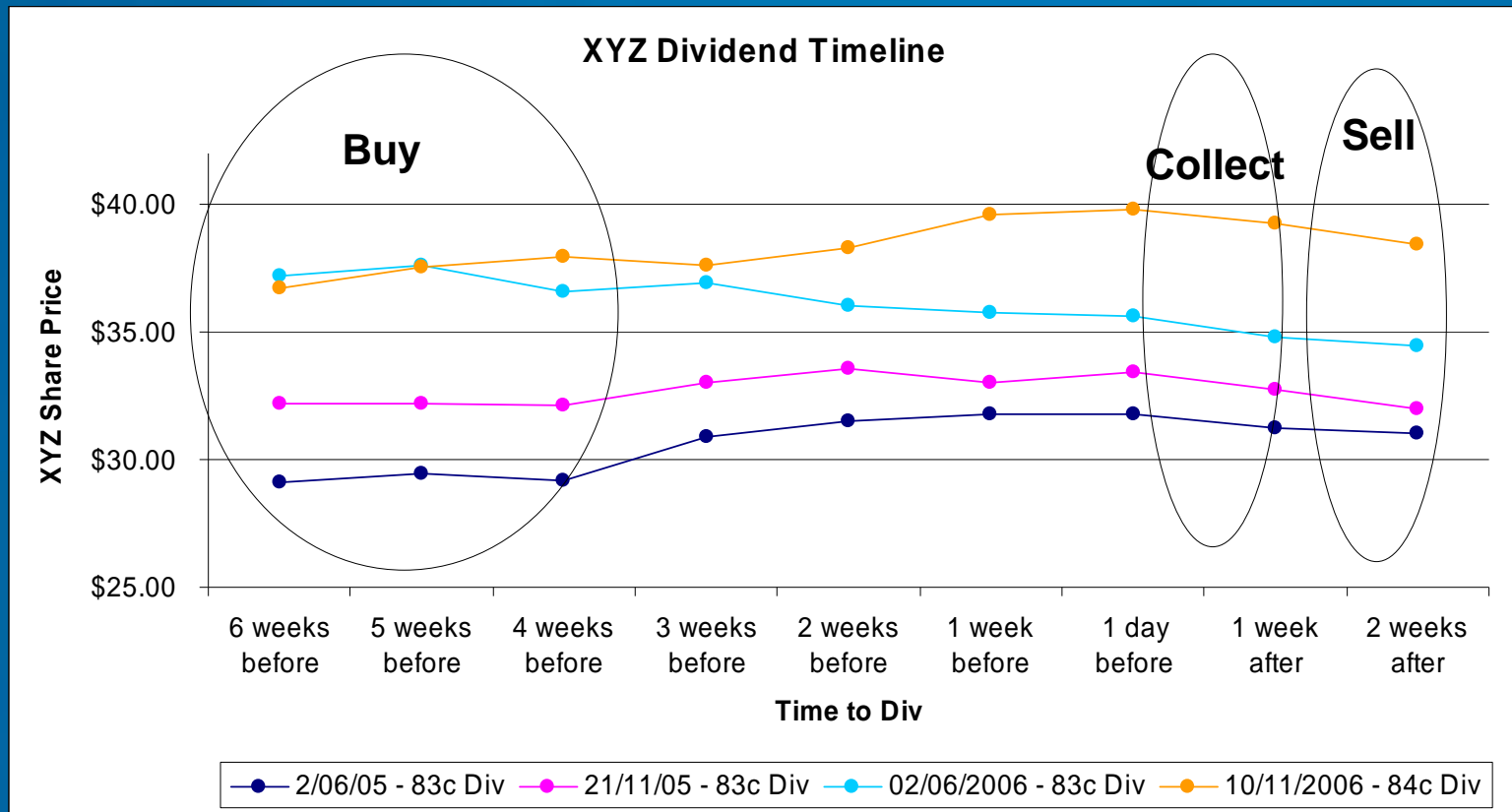
- To be eligible for franking credits you must
 - Hold the share (or instalment) for a period of 45 days plus 2 (day of acquisition and disposal); or
 - If claiming less than a total of \$5,000 of franking credits, no holding period is required



Pre-Dividend rally



ASX
AUSTRALIAN SECURITIES EXCHANGE



Last year
Year before

NB: Share prices often run up to dividend dates.



ASX
AUSTRALIAN SECURITIES EXCHANGE

Dividend Calendar – 7 Stocks



 Instalment Purchase

 Instalment Sale



ASX
AUSTRALIAN SECURITIES EXCHANGE

Dividend Yield Strategy (DYP)

NB Data has been approximated and rounded for ease of illustration

	XYZ SHARES	XYZ Instalments		
		gearing	reg	high
Units bought @	\$34.45		\$17.75	\$9.48
Units sold @ held for 45 days + days of purchase & sale	\$38.62		\$21.86	\$13.52
Gain/(loss) on trade	\$4.17		\$4.11	\$4.04
Dividend received	\$0.84		\$0.84	\$0.84
Total return per unit dividend + gain/loss	\$5.01		\$4.95	\$4.88
Total return as a % invested	14.54%		27.89%	51.47%



ASX

AUSTRALIAN SECURITIES EXCHANGE

How to get started

Feb-Mar 2009

Next Steps – www.asx.com.au



- Online Education
- Paper Trade (Sharemarket Game)
- Read a book (ASX Way)
- Find a broker

Start small

Thank you &
Feedback forms please