



# ASX

AUSTRALIAN SECURITIES EXCHANGE



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# Module 3:

## Enhanced Income and Yield Strategies Using Instalments



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# Types of ASX Quoted Warrants

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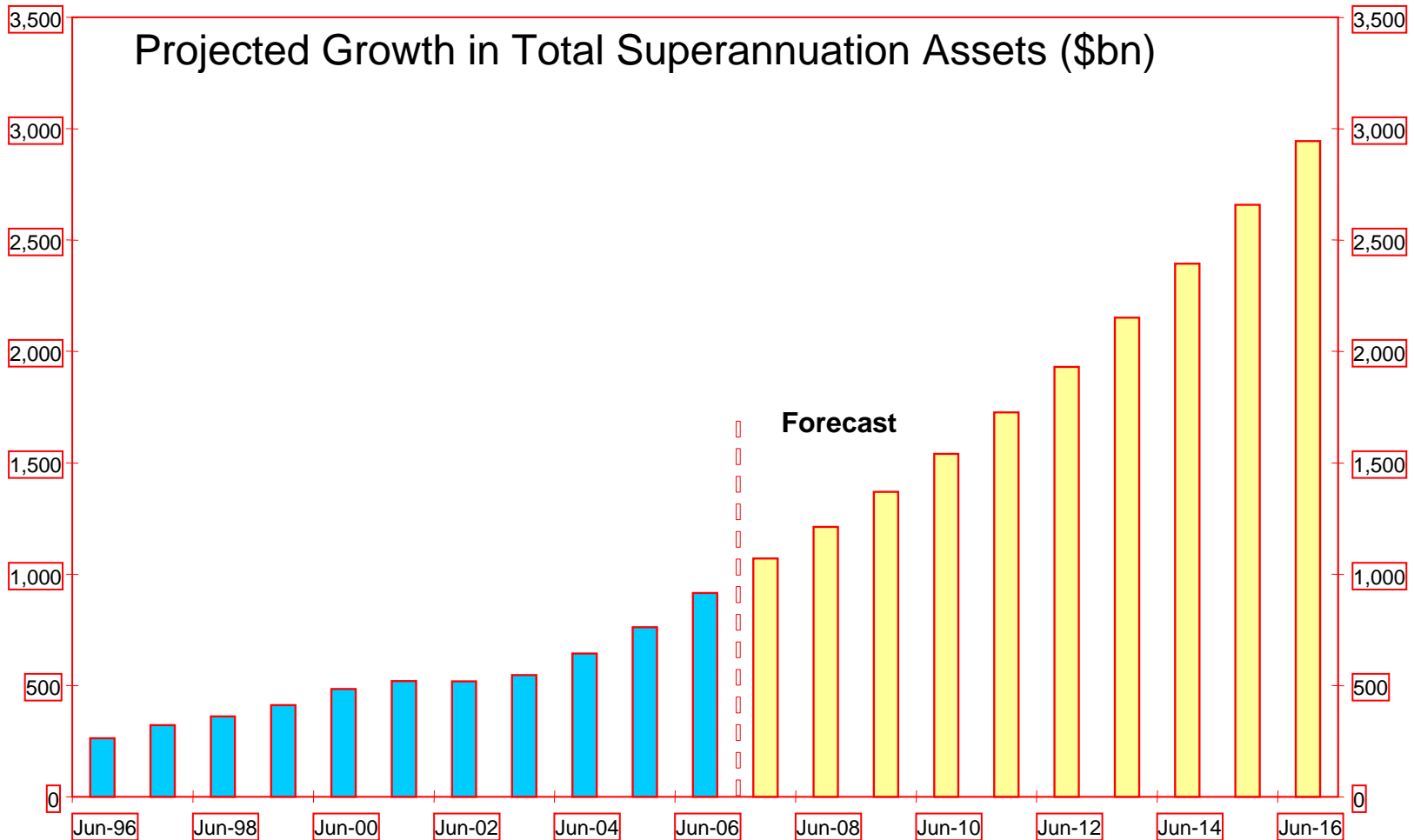
## Trading

- Equity
- Index
- Currency & Commodity
- Knock-out (Barrier)
- MINIS [[www.asx.com.au/minisroadshow](http://www.asx.com.au/minisroadshow)]

## Investment

- Instalments
- Endowments
- Capital Protected
- Structured Investments

# Super Continues strong growth



Source: APRA, Rainmaker (Apr 2007), ASX

# Lecture Series Modules

## Upcoming presentations – key dates

		2007						2008	
		JUL	AUG	SEPT	OCT	NOV	DEC	FEB	MAR
Module	Topic								
1	Basic Mechanics of Instalments	✓							
2	Instalment Strategies: Cash Extraction		✓						
3	Instalment Strategies: A leveraged yield (DYP)			✓					
4	Course in review: Instalments and SMSFs				✓				
5	The basic mechanics of ASX Trading Warrants					✓			
6	Warrant Strategies: Share portfolio Insurance Put Warrants							✓	
7	The mechanics of ASX Barrier Warrants								✓

Register online [www.asx.com.au/warrants](http://www.asx.com.au/warrants)

# Module Three Agenda

- ASX Quoted Instalments structure (recap)
- Investing in Instalments – ways to buy & sell
- When to consider ASX Instalment strategies
- Enhanced Yield: DYP
  - Three leveraged play examples
- Benefits and Risks

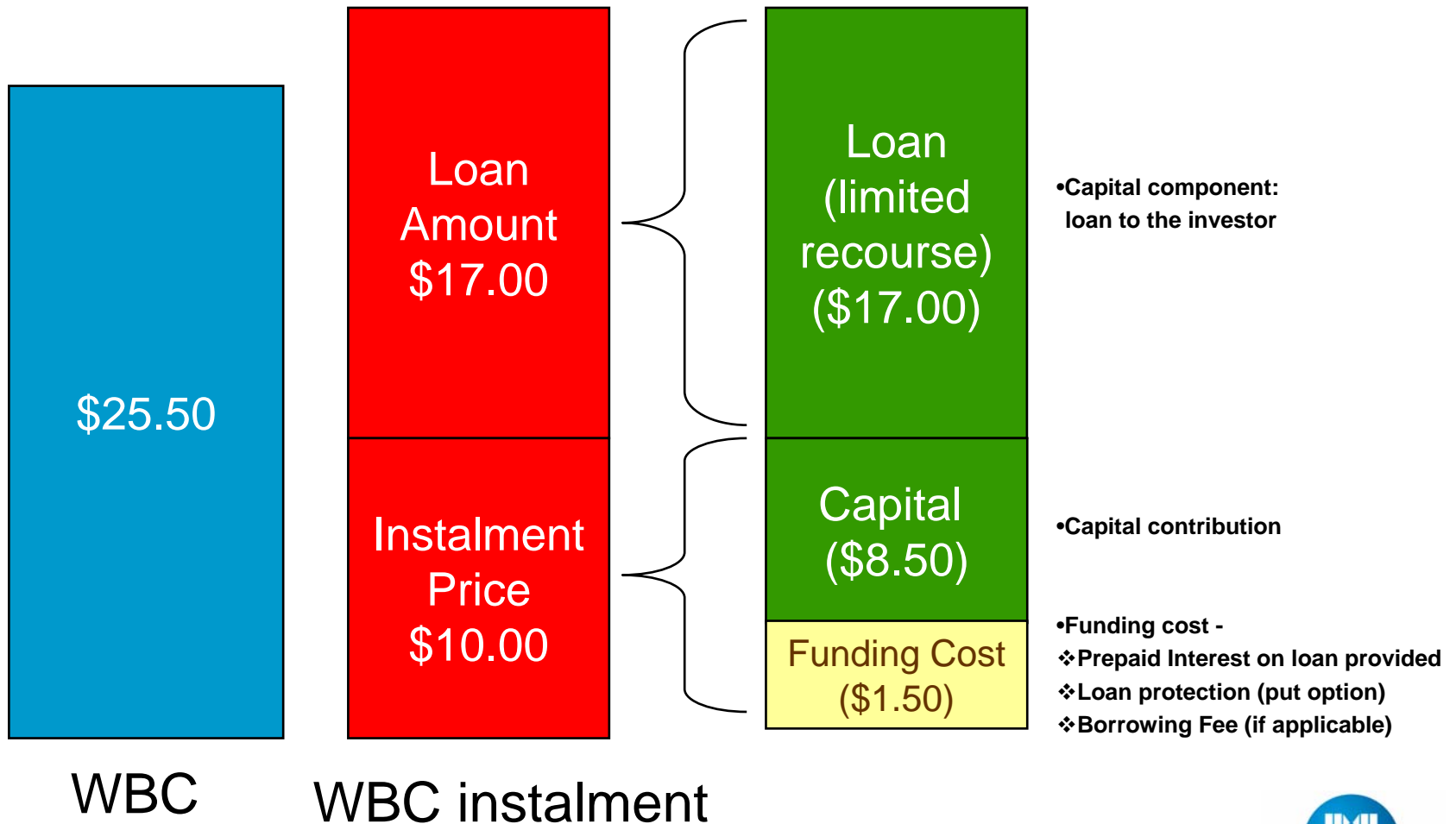
# ASX Quoted Instalment Structure



# What is a Quoted Instalment?

- 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** similar to share ownership.
- Similar to Telstra Instalment receipts
- Generally issued between 1 to 15 years by a financial institution
- Tradable on-market (ASX) through your broker
- Eligible form of gearing for Self Managed Super Funds (SMSF).

# Pricing a Quoted Instalment

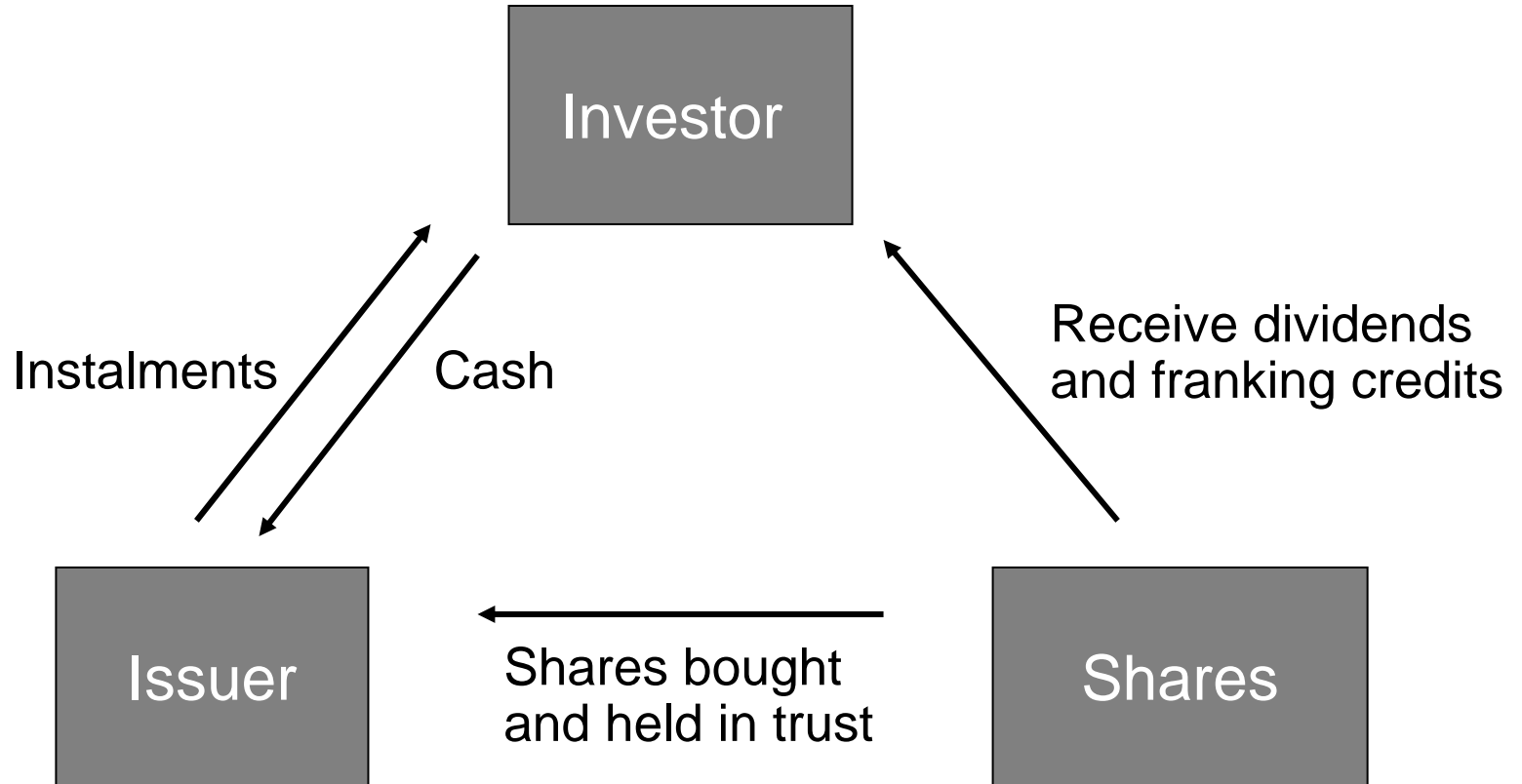


\*\*Price at 28/06/07

# Investing in Instalments (ways to buy & sell)



# Buying an Instalment – Issuer cash application



# An overview of the mechanics

When you purchase an ASX Quoted Instalment, the Issuer purchases the underlying share and holds it in trust in your name.

## 3 Ways to Purchase

- On the ASX
- Off market using a cash application form (primary app.)
- “Converting” your shares into instalment warrants using the security holder application form (cash extraction)

## During the life of the investment

- You are entitled to dividends and franking credits.
- The prepaid interest component may be taken off of your income to help reduce your tax bill.
- The value of the instalment moves due to fluctuations of the share price.

## 4 choices at Completion

- Take delivery of the share by paying the final instalment (= a fixed amount). No CGT triggered.
- Opt to take cash settlement (= share price less the final instalment) and pay CGT.
- Roll your instalments into a new series. No CGT triggered.
- Do Nothing

NB Should the share price be below the final instalment, you have no obligation to pay the final instalment.



# When to consider ASX Quoted Instalment strategies

# Building a portfolio

- **Methods of investing:**
  - Growth – capital appreciation
  - Balanced – blend of income and growth
  - Yield – income
- Similar to managed funds
- Depends on the investor's needs and objectives



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# Portfolio Issues

- You have an existing portfolio which may not suit your current investment approach
  - different stage in your life cycle [i.e. accumulation / income]
  - financial circumstances have changed
- Your existing portfolio has become overweight in some certain stocks
- Re-weighting your portfolio may trigger a CGT event



# Strategies

- Portfolio construction
  - Leverage or diversify using Instalments
  - Applications in self managed super funds (SMSFs)
  - Cash extraction - unlock wealth from existing shares
- Ongoing short term strategies to increase an income stream
  - Dividend yield play (timeframe: 2 months)
  - Write call options using Instalments as collateral (Covered call strategy) (timeframe: 2 months)

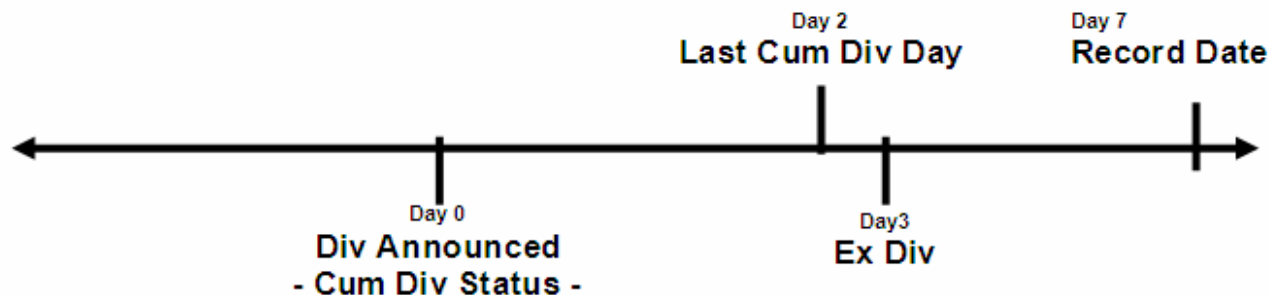


# Understanding dividend timetables



# An ASX-listed company dividend or distribution timetable:

- On DAY 0 The company announces dividend (in the case of a trust, distribution) and record date. Securities quoted on a “cum” basis
  - Basis for quotation: CD tag on
- DAY 3 Securities are quoted on an “ex” basis 4 business days before the record date (ie day 3).
  - Basis for quotation: XD tag on
- DAY 7 Record date to identify security holders entitled to the dividend (distribution).
- Date of dividend (distribution) payment. (any time after the record date)
- Despatch date (No later than 10 business days after the date of payment of dividend/distribution)



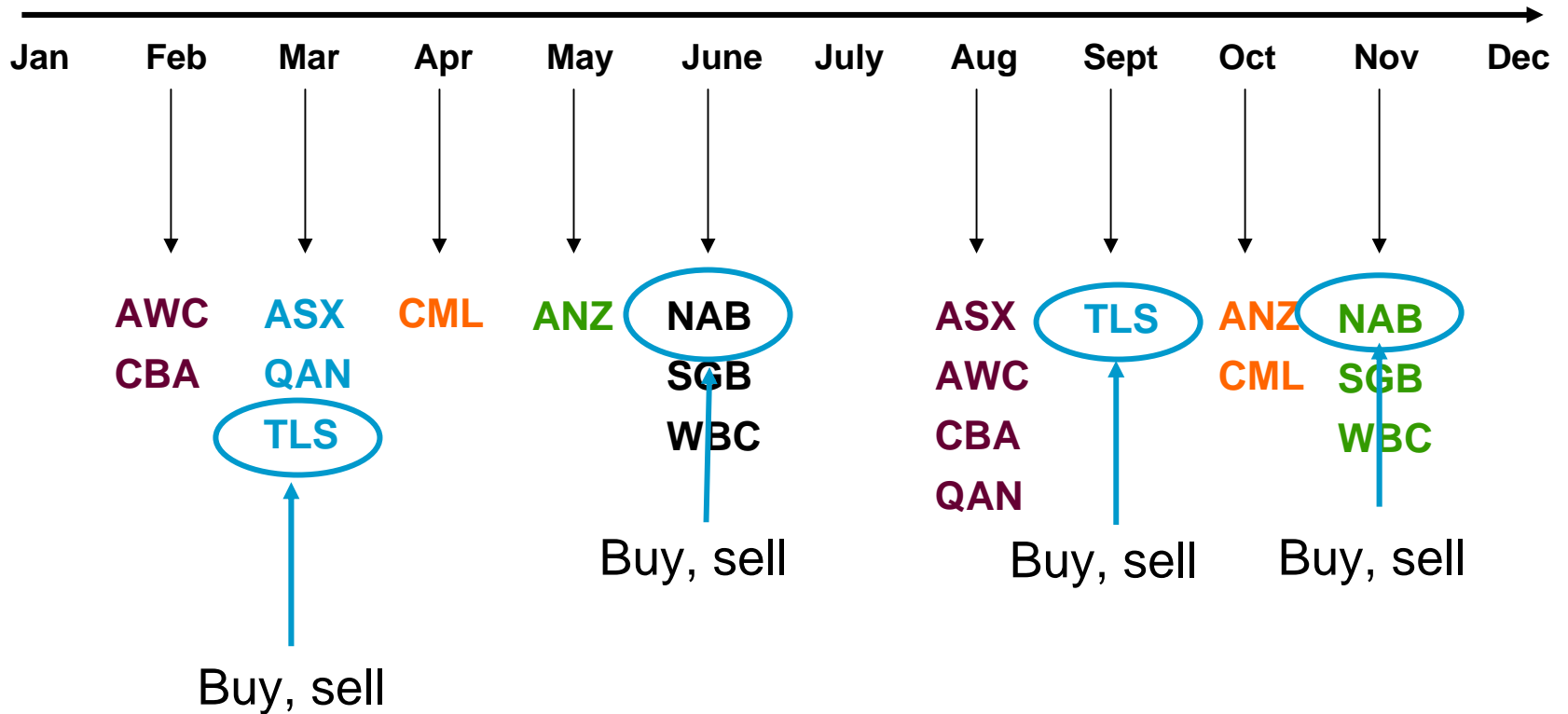
# Enhanced Yield: Dividend Yield Play (DYP)



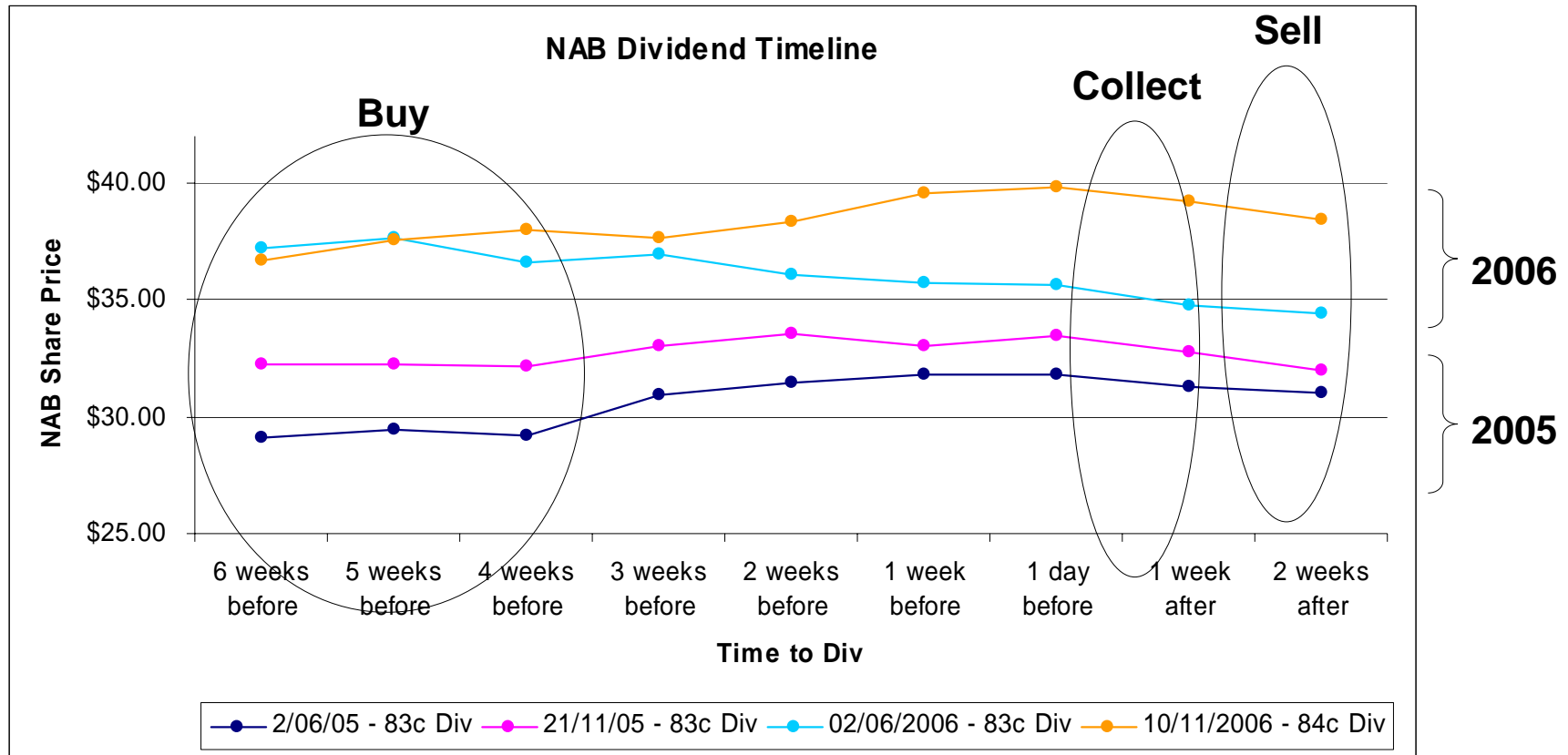
# Dividend Yield Play

- Short term trading strategy to generate income on a regular basis throughout the year
- Substitute instalments for shares to generate enhanced yield
- Not all stocks pay at the same time and you need to identify stocks with healthy yields
- With one limited capital base you are able to roll up to 6 plays.
- When starting out consider an instalment with one year opposed to say a three month expiry to afford yourself more certainty and allow the price to recover is incorrectly priced. I.e. comfort level to recover in time.

# Dividend Calendar – 10 Stocks



# Pre-Dividend rally



NB: Share prices often run up to dividend dates.

# Enhance yield – % value

	NAB shares	NAB instalment
Buy Price <small>(19 Jun 06)</small>	\$34.45	\$9.48
Sell Price <small>(16 Nov 06)</small>	\$38.62	\$13.52
Profit on trade	\$4.17	\$4.04
Dividend <small>(Ex-div - 10 Nov 06)</small>	\$0.84	\$0.84
Total return	\$5.01	\$4.88
<b>Percentage return on initial investment</b>	<b>14.54%</b>	<b>51.47%</b>

\*Past performance not indicative of future performance



# Enhance yield – \$ value

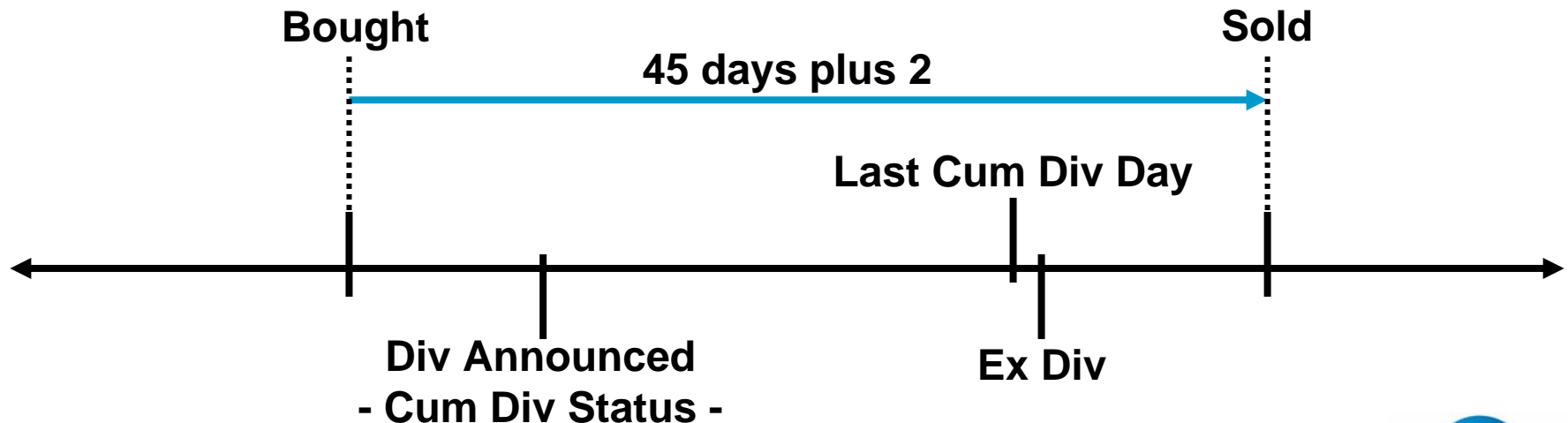
	290 NAB shares	1055 NAB instalment
Buy Price <small>(19 June 06)</small>	\$9,991	\$10,001
Sell Price <small>(16 Nov 06)</small>	\$11,199	\$14,264
Profit on trade	\$1208	\$4,263
Dividends <small>(Ex-div - 10 Nov 06)</small>	\$244	\$886
Total dollar return	\$1,452	\$5,149
Percentage return on initial investment	14.54%	51.47%

\*Past performance not indicative of future performance

# 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



# Tips on Trading for Dividends

- View should be bullish on the stock
- Select your stock
  - Evaluate short term performance
  - Stocks with attractive yields
- Select Instalment
  - Appropriate level of gearing based on risk (regular or highly geared)
  - Appropriate expiry buffer (**i.e. 1 year vs. 3 month**)
- Plan trade
- Monitor your position (particularly after the ex-div date)

TOP RETURNS

\*According to Morning Star research from the range of funds available through Direct Access

ASSET TYPE	Aust. Shares	Int. Shares	Cash	Balanced	Growth	Aggressive
% RATE	47.85%	21.80%	5.66%	13.78%	16.03%	19.00%

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## Dividends

 [Print page](#)

[How are dividends released on www.asx.com.au?](#)

You can access dividend information in three ways.

Either type in up to 10 ASX Company Security Codes separated by spaces

Select by:

- Most recent dividend \*
- All available dividends \*\*

or type in the beginning of a company name

or choose a [GICS Industry Group](#)

GICS industry groups

\* The latest dividend announced by this company.

\*\* Between 1st July - 31st March Dividend information for the previous and current financial year is displayed.  
Between 1st April - 30th June Dividend information for the current financial year only is displayed.

The 'Date Payable' determines the financial year in which a dividend is paid.

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## Dividend prices

[How are dividends released on www.asx.com.au?](#)

Code	Company Name	Div Amount	Ex Div Date	Record Date	Date Payable	% Franked	Type	Further Information
<a href="#">ANZ</a> *	AUSTRALIA AND NZ	59c	08/11/2005	14/11/2005	16/12/2005	100%	Final	59C FR@30% DRP & BSP 50,000 IN EACH P
<a href="#">ANZ</a> *	AUSTRALIA AND NZ	56c	15/05/2006	19/05/2006	03/07/2006	100%	Interim	56C FR @ 30% DRP&BSP 50,000 IN EACH P
<a href="#">ANZ</a> *	AUSTRALIA AND NZ	69c	09/11/2006	15/11/2006	15/12/2006	100%	Final	69C FR@30% DRP & BSP 50,000 IN EACH P
<a href="#">BHP</a> *	BHP BILLITON LIMITED	19.2037c	05/09/2005	09/09/2005	28/09/2005	100%	Final	US 14.5C PER SHARE 19.203746C FR@30
<a href="#">BHP</a> *	BHP BILLITON LIMITED	23.723c	27/02/2006	03/03/2006	22/03/2006	100%	Interim	US 17.5C PER SHARE 23.723056C FR@ 30
<a href="#">BHP</a> *	BHP BILLITON LIMITED	24.2385c	04/09/2006	08/09/2006	27/09/2006	100%	Final	US 18.5C PER SHARE 24.238549C FR @ 30
<a href="#">TLS</a> *	TELSTRA CORPORATION.	20c	26/09/2005	30/09/2005	31/10/2005	100%	Final	20C FRANKED @ 30% 6C SPECIAL
<a href="#">TLS</a> *	TELSTRA CORPORATION.	20c	20/02/2006	24/02/2006	24/03/2006	100%	Interim	20C FRANKED @ 30% 6C SPECIAL
<a href="#">TLS</a> *	TELSTRA CORPORATION.	14c	21/08/2006	25/08/2006	22/09/2006	100%	Final	14C FRANKED @ 30%

If one or more of the security codes searched on is not displayed above, either the ASX code does not exist, a dividend has not been announced to the ASX by this company during the specific timeframe or a dividend has been announced but is not yet available on this website (for more information refer to [How are dividends released on www.asx.com.au?](#)).

An \* next to the security code indicates there has been an announcement today relating to that security. Click on the \* to view the list of today's announcements. For more information about listed companies see our [company information](#) section.

# Getting Started in DYP

- Find stocks that will be going ex-div in the coming months:
  - NAB
  - ANZ
  - WBC
- Choose the Instalment (gearing, expiry)
- Check dates and plan the trade
- If unsure, start small

# Three leveraged play examples



# Capturing Dividends and Franking via Highly Geared Instalments

Utilise a highly geared Instalment prior to the dividend by either:

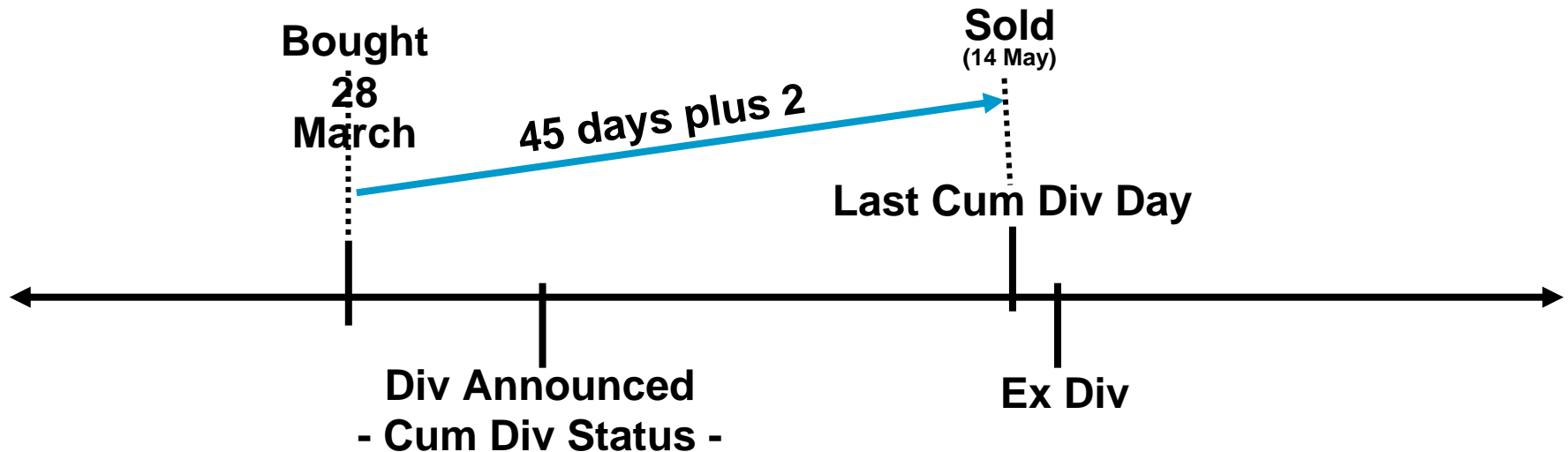
1. Acquiring the Instalment ahead of the dividend in anticipation of a price run up to the dividend; or
2. Holding the Instalment over the dividend date primarily to capture dividends and franking; or
3. Holding the Instalment over the dividend date for the dividend and franking and looking to exit the position for zero cost.

NB: Strategy may change due to uncertainties (i.e. price movements) around dividend periods.

# Capturing Dividends and Franking via Highly Geared Instalments

1. Holding an Instalment ahead of the dividend in anticipation of a price run up to the dividend:

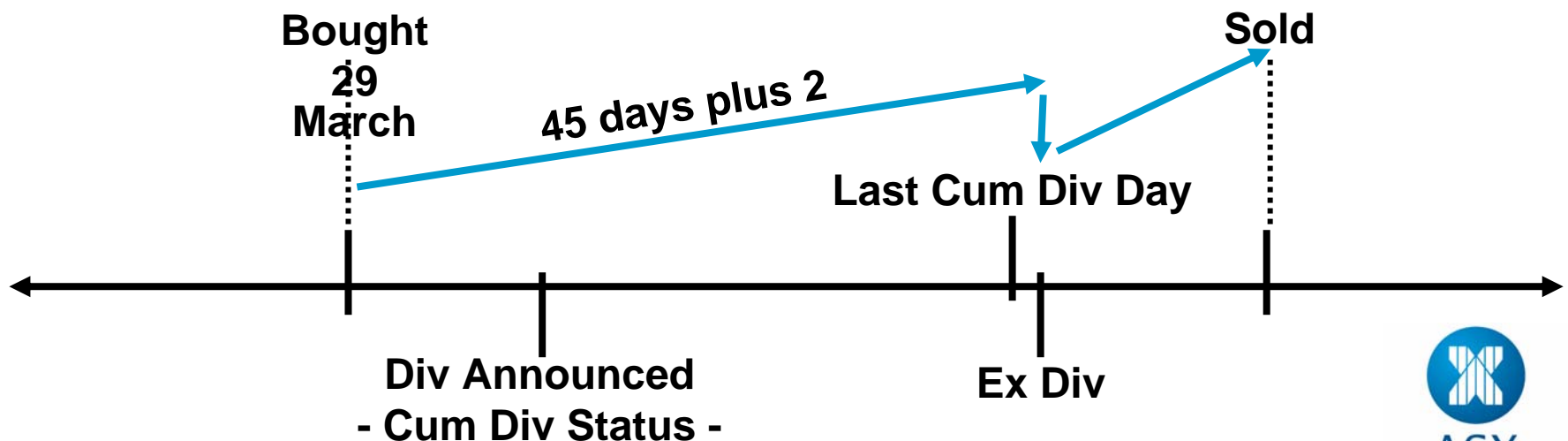
- ANZ goes ex div 15<sup>th</sup> May 2006 paying 56 cents per share.
- Assume 47 days prior to last cum div day (28<sup>th</sup> March)



# Capturing Dividends and Franking via Highly Geared Instalments

2. Holding an Instalment over the dividend date primarily to capture dividends and franking;

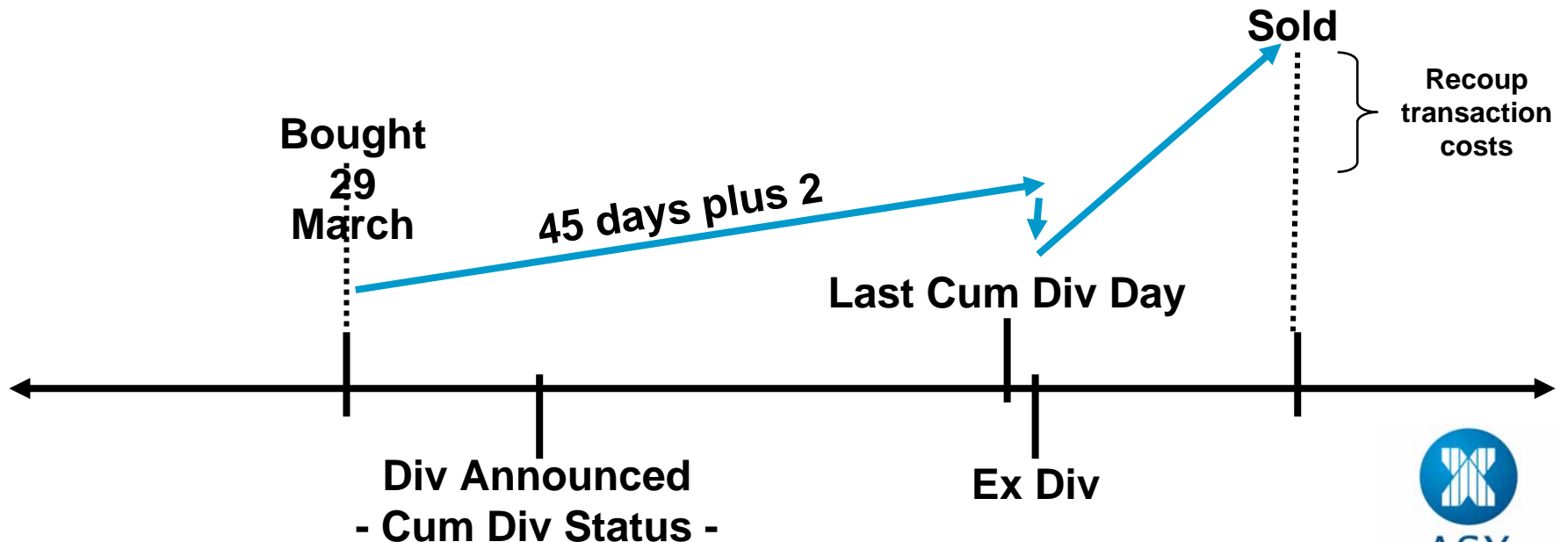
- ANZ goes ex div 15<sup>th</sup> May 2006 paying 56 cents per share.
- Assume 47 days prior to ex div (29<sup>th</sup> March)



# Capturing Dividends and Franking via Highly Geared Instalments

3. Holding the Instalment over the dividend date for the dividend and franking and looking to exit the position for zero cost.

- ANZ goes ex div 15<sup>th</sup> May 2006 paying 56 cents per share.
- Assume 47 days prior to ex div (29<sup>th</sup> March)
- **Target** stock price recovery post ex div to a price that also covers transaction costs incurred.



# DYP – Portfolio Study

- Undertaken by the ASX (FY 04/05)
- Results:
  - Shares – 8.9%
  - Instalments – 20.0%
- For more information– [www.asx.com.au/yield](http://www.asx.com.au/yield)
  - Explanation and rules

# Benefits and Risks



# Benefits of Instalments

- **Compared to a direct share investment Instalments offer:**
- Increased share exposure without more capital
- Known and limited downside risk – first instalment
- Higher potential returns - leverage
- Higher dividend income and yield (compared to shares)
  - Excess franking credits are refundable for SMSFs
- Potential taxation benefits
  - Interest expense

# 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 (N.b. 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.



# Why invest in Instalments?

- Generate wealth with a limited capital base
- Receive a regular and reliable income stream
- Safer gearing solution
- Known and limited downside risk – first instalment
- Tax effective
- Eligible form of gearing for SMSFs

# For further information

Visit **[www.asx.com.au/warrants](http://www.asx.com.au/warrants)** to download:

## ASX Fact Sheets

- Investment strategies using Instalments
- Trading strategies using Instalments
- Short-term trading using Trading-Style Warrants

## ASX Brochure

- Understanding Trading & Investment Warrants
- Issuer Contact List

## Enquiries:

- E-mail [info@asx.com.au](mailto:info@asx.com.au) or
- Contact ASX customer service on 131 279

## Retail Investor Events Calendar:

- FREE events – register online today
- Visit the ASX home page [www.asx.com.au](http://www.asx.com.au) (Upcoming Events)

# Module Four

**Course in Review: Instalment  
Strategies - SMSFs  
(October 2007)**





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