



ASX

AUSTRALIAN SECURITIES EXCHANGE

Instalment Warrants – Dividend Yield Play

Fact Sheet

Dividend Yield Play is a strategy that can generate income from dividend paying stocks using instalments quoted on the ASX. Instalments are financial instruments issued by banks and other institutions, traded on ASX; and are geared investment products that provide entitlement to all the benefits of share ownership.

What is Dividend Yield play?

The strategy is used to generate a dividend income (and franking credits) from exposure to underlying high yielding share instalments across companies' dividend periods.

A strong dividend income stream can be the cornerstone of an investment portfolio. Rolling out of one share, once ex-dividend and into another for its dividend payment can provide a regular dividend income. Traditionally Australian companies offer a relatively high dividend yield compared to their global counterparts.

The strategy allows investors to:

- Enhance the dividend yield
- Qualify for multiple dividends / distributions
- Accrue multiple franking credits

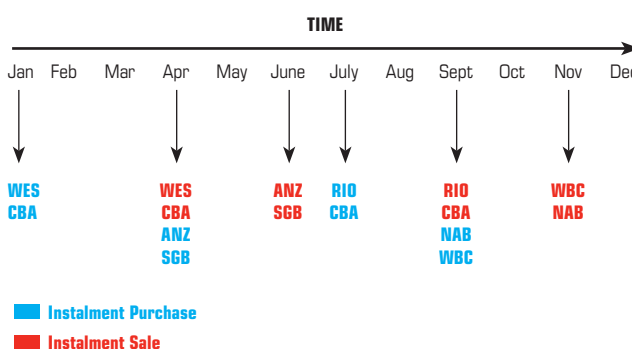
Investors can qualify for multiple dividend payments from various companies using the same capital investment. For example, the initial investment capital could be rolled four times in a twelve month period over a range of underlying shares, each delivering a dividend payment and franking benefits.

Implementing the strategy

As with using shares to implement the strategy, the instalments must be purchased prior to the ex-dividend date. To be eligible for franking credits, you may need to satisfy the '45-day holding period' rule. This may also provide sufficient time for the underlying share price to recover after the ex-dividend date. Forward planning is essential to the success of the strategy. Before implementation be sure to:

- Research and formulate a schedule of company dividends and the dates that they will be delivered.
- Identify an instalment that reflects your tolerance for risk. The higher the gearing level the higher the risk.
- Select an instalment with expiry or rollover date beyond the trading period.

The following is a working example of how the strategy could be actioned covering 8 dividend payments over 12 months.



This example starts by identifying and purchasing suitable instalments, based on investment requirements*. We always intend to invest around 30 days before the ex-dividend date. This is to pre-empt the usual rise in a share price prior to the dividend announcement. Remember that the instalments price is based on that of the underlying share and will replicate its performance. Once the dividend is paid we hold the stock for a further period (say two weeks). There are two motives for this.

- Firstly to allow franking benefits under the "45 day rule" and
- Secondly to play out the traditional share price fall when a stock turns ex-dividend.

Upon selling the first instalments the process is repeated with a new selection of instalments.

* Stocks that traditionally pay high yields are selected, however future dividends/ distributions can not be guaranteed.

Dividend Yield Play

Strategy requirements:

- Research – Analysis will provide an estimate of dividends leading up to the company announcement.
- '45 day holding period rule' – to be entitled to franking credits you must hold your shares (or instalments) for at least 45 days excluding day of purchase or sale. If you are claiming less than \$5,000 of franking credits per financial year, the rule does not apply. You should consult your tax advisor, or you can refer to the taxation paper (see www.asx.com.au/warrants) for more detailed information.
- Plan and monitor your trade – particularly after the ex-dividend date as the underlying price should theoretically drop for a period of time.
- For instalments, accommodate for the interest and fee decay over the trading period.

Case Study: Strategy in progress

The Scenario

Company XYZ has announced a 50 cent fully franked dividend. As an alternative to buying XYZ shares, you purchase the following instalment:

- XYZ123 - a regular geared instalment (50%)

The following table provides an example of the instalments concept with an increasing share price. Comparisons are based on two \$10,000 investments. Firstly into XYZ shares and secondly XYZ instalments:

	XYZ SHARES	XYZ INSTALMENTS
No. of shares/ instalments	1000	2000
Buy price	\$10	\$5
Sell price	\$10.50	\$5.50
Capital gain	\$0.50	\$0.50
Dividends received	\$500.00	\$1000.00
Dividend yield (%) – not annualised	5%	10%
Total return	\$1000	\$2000
Return on investment (%) – not annualised	10%	20%

Disclaimer: Information provided is for educational purposes and does not constitute financial product advice. You should obtain independent advice from an Australian financial services licensee before making any financial decisions. Although ASX Limited ABN 98 008 624 691 and its related bodies corporate ('ASX') has made every effort to ensure the accuracy of the information as at the date of publication, ASX does not give any warranty or representation as to the accuracy, reliability or completeness of the information. To the extent permitted by law, ASX and its employees, officers and contractors shall not be liable for any loss or damage arising in any way (including by way of negligence) from or in connection with any information provided or omitted or from any one acting or refraining to act in reliance on this information. This document is not a substitute for the Operating Rules of the relevant ASX entity and in the case of any inconsistency, the Operating Rules prevail.

© Copyright 2008 ASX Limited ABN 98 008 624 691. All rights reserved 2008.

Information line: 131 279 www.asx.com.au

For this product the market is operated by ASX Limited ACN 008 624 691

Main benefits of the strategy

- Increased dividend income and franking credits.
- Less capital is required to receive the same dividend income than investing in shares. Alternatively you can generate more income for the same capital investment.

Main risks of the strategy

- The share price may fall in the period after the ex-dividend date (e.g. a fundamental change in the performance of the company).
- A small negative move in the share price leads to a higher percentage loss on the instalment. This is because the instalment is a leveraged investment.
- The more highly geared the instalment the more significant the funding costs and potential for loss.

Benefits of Instalments

Compared with share ownership

- Entitlement to all investment returns of the underlying security.
- Smaller initial outlays through partial payment upfront.
- Known and limited downside risk – No Margin calls
- Higher potential returns
- Higher dividend income and yield (compared to shares)
- Excess franking credits can be refundable for SMSF's
- Potential taxation benefits
- Interest expense deductible
- Tradable on ASX

For additional information

To learn more about Instalments and the Dividend Yield Play visit the ASX website www.asx.com.au/warrants for a range of information on trading strategies, warrant issuer contact details and registration details on ASX free seminars and lectures.

