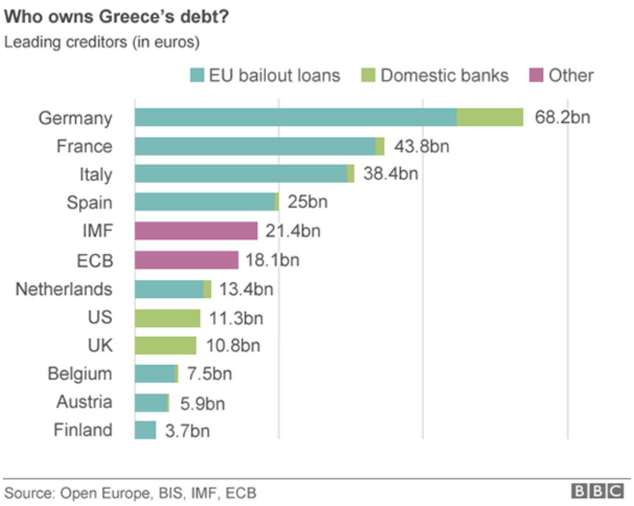
Stock Picker Edition – July 2015

OUR STOCK PICKS - BUT FIRST…

The media love playing on people emotions to cause panic, confusion and chaos to capitalize on the "hot topic of the day". Given the coverage you should all be aware the referendum that occurred Sunday concluded with the Greek people rejecting further austerity measures in exchange for another bailout. Oddly enough they took to the streets to celebrate the "No" vote as some sort of great victory towards "Economic Independence". History tells us this celebration will be short lived given the government's track record in economic management is poor at best. The history books reflect a pattern of failure to pay back its creditors and to destroy the wealth of its own people, which is exactly what occurred during the Greco-Turkish War from 1919-1922. After failing to secure funds from abroad the **government confiscated half of every drachma from its citizens in return for an IOU which, yes you guessed it, was never paid back.** The same fate awaits them if a deal cannot be reached by the deadline set today by the European Union, Sunday the 13th July. In truth their future is in the hands of its creditors, particularly Germany and France, here's why;



Putting the Greece dilemma to one side, the Chinese stock market is suffering a relentless sell off with the Shanghai composite index falling 32.5% from its June high of 5180 index points to its lowest level (earlier today) of 3450 index points. It's important to understand the Chinese stock markets (Shanghai and Shenzhen) are relatively undeveloped compared to major stock markets in the West. In comparison to how the ASX operates I would consider them about 10 years behind in their regulation standards. It really is a gambling pit in its current form. The lack of regulation among Chinese lenders has allowed participants to borrow heavily, pushing stock prices up and overstretching valuations. An event like this will force regulators to adjust to its weaknesses and implement new regulation where needed. Despite wiping out billions in investor wealth it’s an event that will soon pass and emerge with benefits to improve the function of their stock markets closer to an international standard which, if China wants to be an economic powerhouse, they will need to achieve. Technically the Fibonacci retracement indicator reflects support at 3200 index points or possible consolidation at the 3600 index level.

The Chinese government continues to take measures to stem the contagion, including purchasing stocks through state-directed funds, interest rate cuts, suspending stocks from trading, offering liquidity to brokers and increasing margin requirements on short sellers. They still have plenty of tools available to support the market which is the reason why we are confident we are nearing the end of the selloff and this calamity will soon be forgotten.

NOW FOR OUR STOCK PICKS……..

We have always said staying rational among chaos will lead to a better decision. You have to be able to step back and not be drawn into the chaos or risk having your emotions influence the decision making process. Now is the time to put the theory to practice. What we must remember is from a Global perspective (specifically the larger economies US, Europe, Bank of England, Japan and China) rates remain at highly accommodative levels. At home the same applies; the lackluster growth profile we are experiencing has forced the RBA to its lowest rates ever recorded with room to move if required. **This is supportive of risk assets**. Furthermore, its unlikely Australia will be in a position to raise rates until 2016 or later, and even if the RBA chose to tighten its monetary policy it would be done so in small steps. This means the “**Hunt for Yield**” continues to be the main theme and will remain that way for an extended period of time. Now is the time to take advantage of the pullback in the market and capture some good business offering attractive yield. **We analyzed 204 stocks in total focusing on yield**. We didn’t seek out companies paying the highest yield, instead we looked for companies paying attractive yield (compared to interest bearing products), have a track record of paying regular dividends and in our opinion are in a strong position to continue making those dividend payments. **SO HERE THEY ARE (as at 9.7.15);**

- **AGL Limited (AGL)** - P/E of 15x, Yield of 4.04% (Fully franked 5.77%)
- **APA Group Limited (APA)** - P/E of 10.21x, Yield of 4.53% (No Franking)
- **BHP Limited (BHP)** - P/E of 12.50x, Yield 5.78% (Fully franked 8.25%)
- **Rio Tinto (RIO)** - P/E of 11.63x, Yield of 5.12% (Fully franked 7.3%)
- **Insurance Australia Group Limited (IAG)** - P/E 11.10x, Yield 7.01% (Fully franked 10%)
- **Westpac Bank (WBC)** - P/E of 13.65x, Yield 5.58% (Fully franked 7.97%)
- **ANZ Limited (ANZ)** - P/E of 11.92x, Yield 5.61% (Fully Franked 8%)
- **Woodside (WPL)** - P/E of 9.87x, Yield of 6.5% (Fully franked 9.2%)
- **Automotive Holdings Group (AHG)** - P/E of 14.80x, Yield of 5.40% (Fully franked 7.7%)
- **Credit Corporation Limited (CCP)** - P/E of 15.37x, Yield 3.35 (Fully Franked 4.78%)

It's important to note there were many other great companies on our list offering **lower yield but with higher growth profiles**. If you would like to get a copy of this list please give us a call.

REMINDER: CHANGE OF CLEARER TO PERSHING (FROM BBY LIMITED)

We are still in the process of transferring client accounts from BBY Limited to our new clearer Pershing. **If you have not yet been contacted by us and you need to buy or sell in the immediate short term please contact us immediately so we can prepare your account**. We thank all clients for their patience as we continue to make the transition.