



"Make sure you buy value and not momentum, make sure you're investing not speculating, so buy something you understand and are prepared to hold as a source of income, not to make a quick gain."

Anton Tagliaferro - IML Investment Director

Anton Tagliaferro recently contributed to a panel discussion conducted by The Australian Financial Review among other select Fund Managers. Below is an extract of his response from that article:

### *Strategies for staying power - Wizards of the game*

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*How do some of the country's successful fund managers manage millions of dollars? Are they masters of their art or do they simply replicate the benchmark index most are measured against? What are their secrets and what rules do they follow?*

"The sharemarket is a great place for the patient to make money and increase one's capital base but it can also be a place for the hasty or reckless to burn their capital. I have always preferred stocks that have reliable and recurring earnings as these companies are capable of producing more annuity-style income streams in the form of dividends. Shares are a volatile asset class so the more volatile the earnings stream of the underlying company is, the more volatile the share price is likely to be.

In effect you're doubling your risk and the chance of capital loss if you're buying more cyclical stocks such as BlueScope, Steel, Boral or Fairfax, as these companies' underlying earnings are extremely volatile and unpredictable, and often solely depend on the general level of economic growth.

I have also always had a preference for companies with healthy balance sheets as there is less chance of loss of capital. Dividend received from shares are often underappreciated by investors. Dividends not only reduce the chance of total loss from investing in that company but also underpin one's total returns. Thus if you look over the last 50 years or so, the average return from the Australian stockmarket has been around 12 per cent a year and half this has actually come in the form of dividends.

If you can buy a good stock on a sustainable yield of 5 per cent or so that is still growing its earnings, then your share portfolio return is well underpinned and you are well on your way to making a 12 per cent long-term return.

The best time to look at any stock is when it is out of favour. The best opportunities are often when one is prepared to go against the herd. Of course, one mustn't buy a stock just for the sake of being contrarian, but it does more often than not provide best opportunities – as this is often the best chance one will have of buying good quality stocks at an often very discounted price.

The time to sell a stock is when a company starts doing things out of the ordinary. For example, if Woolworths announced tomorrow that it was getting into wine production by bidding for Foster's wine assets, that certainly would be a flag for us to sell.

If a company's management is proven unreliable or untrustworthy, that's another time we would sell a company's share, as clearly what an investor wants is focused, honest and reliable management teams, running our companies. If management started changing direction, then you have to question whether your initial justification for owning the stock still exists.

Another warning sign is when management makes announcements for the sake of purely boosting the share price – this is often done through making deals that are flavour of the month at the time but actually make no economic sense.

You must always be careful of going with the crowd, as the crowd can often get it wrong – as happened with the tech sector in 2000 stocks and LPTs in 2006-07.

I warn people against loading up on resource shares as, clearly, prices in this sector are very effervescent and there's huge risk of losing capital if you are investing at a very mature time for the resource sector run. You must always be prepared to stick to your guns in the sharemarket.

You must always only buy businesses you understand and with transparent accounts and a management team you can trust."



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