INTELLIGENT INVESTOR

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Recommendations report 2016

13.9%

Annual return for the period June 2001 – June 2016

15 years

486 Buy recommendations over the past 15 years

65%

Recommendations cumulative outperformance above the All Ords Accum. Index from June 2001

JUNE 2001 – JUNE 2016 | ISSUES 80 – 444

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**All performance statistics tables as at 30 June 2016*

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Dear member,

When our editor-in-chief John Addis founded *Intelligent Investor* back in 1998, it had the same ambitions and purpose as it has today.

In 2001, a new research team set us on the value investing path and current Senior Analyst James Greenhalgh joined the following year. Current Research Director James Carlisle arrived in 2003 and Deputy Head of Research Gaurav Sodhi in 2009. The addition of Graham Witcomb, Jon Mills, Andrew Legget, Mitchell Sneddon, Alex Hughes and Phil Bish rounds out the largest research team we've ever had.

Table 1: Recommendations summary

RECOMMENDATION TYPES	NUMBER	RETURNS (PER YEAR)^
BUY	374	15.1%
SPECULATIVE BUY	112	7.9%
SUBSCRIBE	16	4.8%
TOTAL ANNUAL RETURN (PER YEAR) (EXC. SUBSCRIBE)	486	13.9%
ALL ORDS ACCUM INDEX RETURN (PER YEAR)*		10.2%
OUTPERFORMANCE		3.7%

***Adjusted for franking**
^Between 1 June 2001 and 30 June 2016

All have first-rate analytical skills but there's one crucial test that every new analyst has to pass. They have to really *get* value investing – not in the superficial way but in a 'read a ton of books and fly to Omaha for the Berkshire Hathaway AGM kind of way'.

Not that we classify ourselves as Buffett-style purists. Our reading also includes Charlie Munger, Ben Graham, David Dodd, Phil Fisher, Seth Klarman, Howard Marks and a host of others. The practice of value investing is less about the teachings of any one individual and more about the difference between price and value – specifically, how to get more of the latter in return for the former. There are different ways of going about this – but many more ways of not going about it.

Much of what you'll hear from the mainstream media and financial community about betas, capital asset pricing models, moving averages and retracements are dangerous distractions. Successful value investing means disregarding the white noise of daily market commentary and sticking to basic principles. We've been doing it for a long time and we're living proof it works.

Our latest audited numbers from Grant Thornton show an average annual return of 13.9% for our buy recommendations over the last 15 years. That compares with 10.2% for the All Ordinaries Accumulation index (adjusted for franking) – meaning that *Intelligent Investor*'s return was 3.7 percentage points higher.

That outperformance has huge implications. A $100,000 investment in the All Ords on 1 June 2001 would have produced $432,000 by 30 June 2016 (including dividends). Had members followed all our recommendations at the time we made them over the same period, that sum would be $712,000 – a difference of $280,000.

Table 2: Model portfolio performance as at 30 June 2016

	GROWTH PORTFOLIO	ALL ORDS ACCUM. INDEX	INCOME PORTFOLIO	ALL ORDS ACCUM. INDEX
1 YEAR	13.1	2.0	12.2	2.0
3 YEARS (PER YEAR)	14.3	8.2	13.2	8.2
5 YEARS (PER YEAR)	11.9	7.3	12.4	7.3
SINCE INCEPTION (PER YEAR)*	10.2	7.6	13.3	7.6

***Growth Portfolio inception date: 7 Aug 2001, Income Portfolio inception date: 10 Jul 2001**

Now here's the caveat: replicating the recommendations in this and previous reports is impossible. Members simply cannot follow every buy and sell recommendation and the comparison assumes you don't have to sell any stocks to buy the ones we recommend.

> *Successful value investing means disregarding the white noise of daily market commentary and sticking to basic principles.*

Our latest audited numbers from Grant Thornton show an average annual return of 13.9% for our buy recommendations over the last 15 years.

So whilst this report is a transparent, audited tool for evaluating every recommendation we've ever made, as a proxy for our overall stock-picking skills it falls a little short.

Table 2, which shows the performance of our model Income and Growth portfolios, is a more realistic guide. Our portfolios operate under the same constraints as your own investments and are a more reliable and accurate real-life comparison. Happily, they also show a respectable outperformance.

The internal rate of return methodology used in this report is unchanged from last year. The report covers a financial rather than calendar year-end and returns include franking credits, a valuable component of returns. Our benchmark, the All Ordinaries Accumulation Index, has been similarly adjusted to make a like-for-like comparison.

Lastly, Strong Buy, Long Term Buy and Buy recommendations are rolled into one 'Buy' category, which while slightly reducing our historic performance and the number of recommendations reported, makes the report easier to digest.

I hope you find this year's Recommendations Report interesting. Please let us know any thoughts you might have via the **Q&A service** on our website or by calling on 1800 620 414 .

Yours sincerely,

James Carlisle,
Research Director,
Intelligent Investor Share Advisor

Background

Reporting performance is a vexed issue. We all know that past performance alone is not a reliable indicator of future returns but, over the long term, what else can one use?

That's one part of the equation. The other concerns transparency. We want to clearly communicate why we make the decisions we do and present our record for all to see. Through the 500-plus articles we publish each year, the website is a vast and accurate historical record of our activity. With this detailed, audited account of all our recommendations, there really is nowhere for us to hide.

Analyse the business

Our approach to analysing stocks is well documented. We review the business model behind each company to assess the stock's underlying value. If the current market price is substantially below our valuation, we'll recommend it. If not, we won't.

Our Buy recommendations, which form the bulk of our reviews and represent the type of stocks in most members' portfolios, have trounced the market, returning 15.1% a year between June 2001 and June 2016. That compares favourably with the All Ordinaries Accumulation Index's 10.2% return over the same period.

Our performance over the past 15 years speaks for itself. The annual return from our two positive types of recommendations (excluding 16 IPO 'subscribe' recommendations, which provided an average annual return of 4.8%) was 13.9%. Given the tech wreck, SARS, and the global financial crisis (GFC), that's more than respectable.

That said, it's unrealistic to think any member would act on every single recommendation, which is why our model Income and Growth portfolios (returning 13.3% and 10.2% a year respectively since inception, although these figures exclude franking credits prior to 1 Jul 13) offer a better insight into how a 'real world' portfolio would have performed.

Table 1: Recommendations summary

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BUY	374	15.1%
SPECULATIVE BUY	112	7.9%
SUBSCRIBE	16	4.8%
TOTAL ANNUAL RETURN (PER YEAR) (EXCL. SUBSCRIBE)	486	13.9%
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^Between 1 June 2001 and 30 June 2016

Methodology

This is our ninth audited performance report and it's worth quickly repeating why we changed how returns are calculated in the 2011 report (for a full explanation please see the ***2013 Recommendations Report***).

The previous method was quite simple. Dividends received during the life of a recommendation were added to the price at which the stock was sold. This figure was then divided by the purchase price to establish the total return, from which the compound annual return was calculated. This was done for each change in positive recommendation. The overall performance figure was the arithmetic average of all those individual returns.

Our Buy recommendations, which form the bulk of our reviews and represent the type of stocks in most members' portfolios, have trounced the market, returning 15.1% a year between June 2001 and June 2016.

It's unrealistic to think any member would act on every single recommendation, which is why our model Income and Growth portfolios offer a better insight into how a 'real world' portfolio would have performed.

Trouble is, the reported performance using this method could be quite different to the actual outcome you might get from actually following our recommendations. How so?

The previous methodology ignored the time value of dividends. A $1 dividend received in 2002 is clearly worth more than a $1 dividend received today, but the previous method didn't distinguish between the two. The simple average doesn't take into account the duration of investment, which is not an accurate reflection of reality.

So in 2011 we switched to calculating performance using an internal rate of return (IRR) methodology, described in detail in ***How to calculate portfolio returns***. An IRR accounts for the amount of money you have invested and the compounding of gains or losses over time.

Notes to the schedule of performance statistics

Basis of preparation

1. The Schedule includes recommendations contained in issues 80 to 444 of *Intelligent Investor* printed fortnightly magazine, or online at intelligentinvestor.com.au between 1 June 2001 and 30 June 2016.
2. Each new positive recommendation is only included when it is first recommended. Recommendations for the same company only appear multiple times where a company has been downgraded to a non-buy recommendation (such as "Hold") and then subsequently upgraded.
3. Returns from dividends, special dividends, distributions and capital returns take account of taxation implications of franking credits by grossing up all dividends.
4. Returns from dividends have been grouped into six-month intervals (31 December and 30 June) based on the closest interval date to when the dividend was paid.
5. Capital returns have been included as a dividend received rather than as an adjustment to the price of the share where capital returns fall within the holding period. Where capital returns fall outside the holding period no adjustment has been made.
6. For ease of presentation and consistency Take Part Profit ("TPP") recommendations have been treated as a full sale with the performance return calculated from the positive recommendation to the TPP recommendation. While the performance of individual shares changes if performance is calculated to a full Sell recommendation, or the cut-off date of 30 June 2016 (if not sold), in aggregate the effect on returns of the portfolio is not material.
7. Due to a change in the publishing regime, recommendations are now taken from the time they are posted to *Intelligent Investor* website (**www.intelligentinvestor.com.au**).
8. Prices for open (not sold) recommendations are as at 30 June 2016 (the last trading day before the end of the financial year).
9. Purchase prices used in calculations are the actual price when the recommendations were posted to *Intelligent Investor* website.
10. Calculations are based on prices and dividends for one (1) share in each company for each recommendation. Performance statistics, however, are calculated on an adjusted basis such that an equivalent amount is invested in each recommendation.
11. No account of different levels of risk associated with different investments / companies has been taken.
12. No consideration has been given to portfolio weightings for each recommendation.
13. The Schedule has been prepared with reference to and where applicable, compliance with ASIC Guidance Statement on the Use of Past Performance in Promotional Material and IFSA Standard No 6.00 on the Calculation and Presentation of Returns.

Director's Declaration

The Directors of InvestSMART Publishing Pty Ltd (formerly The Intelligent Investor Publishing Pty Limited) (the Company) declare that the attached Schedule of Performance Statistics:

1) has been prepared in accordance with the assumptions as detailed in the Notes to the Schedule of Performance Statistics; and

2) complies with the requirements of the ASIC guide on the Use of Past Performance in Promotional Material of July 2003; and

3) presents fairly the performance of the Company's recommendations of issues 80 to 444.

This declaration is made in accordance with a resolution of the Board of Directors.

Alastair Davidson
Director
Dated this 9 September 2016

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To access a detailed list of *Intelligent Investor*'s stock recommendations and performance, click here to view membership options.