Today's 'Stock Traders and Investors Free Weekly Wrap' Article is based on an EXTRACT from Edition 344 of the Mentoring style '*Investing & Online Trading'* Newsletter

Sydney & Brisbane: 'An Evening with Jim Berg'

There is now only 1 day before Jim's Sydney evening seminar this Tuesday, 28th February, followed by Brisbane on 6 March.

At his first *Show Me the Money'* presentation in Melbourne last week, Jim showed how the US market gave a re-entry signal in early January and how close now the ASX market is to following suit, provided the market continues to rise.

If so, Jim plans to re-open our Newsletter's notional Portfolio **very soon.**

In his presentation, Jim outlined what he is planning now to take advantage of the '*First Moves'* that may be soon become available.

He also showed:

- ✓ Precisely what he is looking for now before re-entering the market
- ✓ How he combines fundamental and technical analysis to increase his success rate
- ✓ Details on how he trades and invests in the market using his '*Weight-of-Evidence'* and unique JB Volatility Indicators

Please let your like-minded family, friends and associates in and around Sydney and Brisbane know about these special evening events. Thank you.

Savings of 40% are available and you may invite guests to come with you at this specially discounted rate too. You also receive a Free Bonus package worth $127, including Jim Berg's '*Stock Trading Handbook – Fundamental & Technical Analysis Combined'*.

To secure your seat, or for more details, **Click Here Now>>>**

Investing for Dividends (Part 2)

By Jim Berg and Marcus Padley

1) Recap

In Part 1 last week, we showed that the place to invest in 2011 was not for dividends in the big four banks. {If you missed Part 1, you can download it from our Blog. }

Discussing other options with dividend and long-term investors is often difficult as they usually have been doing it for a long time and it is challenging for them to change.

We hope this article will help beginners see the value of considering other approaches.

We conclude this two part series today by looking in detail on how to invest for growth AND income.

2) "Investing is about wealth creation"

So let's assume that the investor in Part 1 counts the dividend income but not the negative growth. And let's also assume that they might have held the big four banks for several years, like since September – December 2007. The purchase price was the average over this time frame.

The table below shows the average negative growth over the four years. Dividend income over the four years would not cover this loss.

Symbol	Average Price	Dec 30th	%
WBC	$28.77	$20.00	-30.48%
NAB	$40.65	$23.36	-42.53%
CBA	$57.96	$49.22	-15.08%
ANZ	$29.09	$20.53	-29.43%
		MEAN	**-29.4%**

Investing is about wealth creation and this investor has not created any wealth over this four year period. They could argue that they will ***never*** sell and that the market has ***never*** failed to make a new high.

It is true that the market has always recovered and made a new high but beginners need to question the experts' advice to just ***wear the pain*** of bear markets.

The 2007 top was more than four years ago and it could be several more years before those prices are reached again.

Our investor claims they saved/spent/re-invested the dividend and there is *no loss if they do not sell and they get franking credits*!

But, if a portfolio was worth $100,000 twelve months ago and now is worth $95,000 then that is a loss!

And what about *opportunity cost*?

According to Wikipedia, an opportunity cost is "*the next-best choice available to someone who has picked between several mutually exclusive choices.*"

For example, an investor decided to buy 1000 shares in BHP. The price was $40.00. They didn't have a disciplined, written trading plan so had to take the trade when they *thought* the price was right and they had a *feeling* the price was going lower over the next few days. It didn't.

The price went up, so the purchase was made three days later at $43.50. 1000 shares X $3.50 = $3,500.00. This is an opportunity cost. Its economic value turned out to be $3500.00. **An opportunity cost is a *real cost*.** It has cost *real money* out of the investor's savings.

There is an opportunity cost in holding investments in a falling trend:

- When you invest in a company and it declines in price, you lose money.
- **The money is not in your portfolio. The balance sheet shows it does not exist.**
- The money is not in your brokerage account.
- **The money cannot be withdrawn. It's gone.**

3) Franking

Marcus Padley on Franking:

> 'Franking is a bit of a furphy. This is a slightly philosophical argument but it boils down to this. If a company makes $1 of retained earnings, pays tax on it and then gives you 70¢ and you claim the 30¢ imputation credit you get $1, which is then taxed at your tax rate (or not if it's zero).
>
> If on the other hand the company makes $1 a share of retained earnings and keeps it, the value of the company goes up by $1 a share and that is reflected in the share price. You sell the share. You have made $1.
>
> If you pay zero tax it is the same as getting the fully franked dividend. If you pay tax it is still the same as getting the fully franked dividend.
>
> If you pay tax but held the investment for a year you pay only half as much tax, so in some cases $1 of capital gain is actually better than getting a dollar via a franked dividend.'

4) Growth + Income

What about investing for *growth* **AND** *income*? Let's see what happens if we only hold a position in the big four when the ASX200 is in a rising trend.

The weekly chart below is the **ASX200 Index** showing a rising trend from mid 2003 to 2008. Westpac and Commonwealth had a rising share price every year, 2004 through 2007. ANZ had a losing year in 2007. The National had losing years in 2004 and 2007.

ASX200 (XJO) Weekly Chart

Holding the big four for growth and income would have been profitable in any of these calendar years resulting in a wealth creating portfolio. 2007 probably would have been the least productive so let's start there.

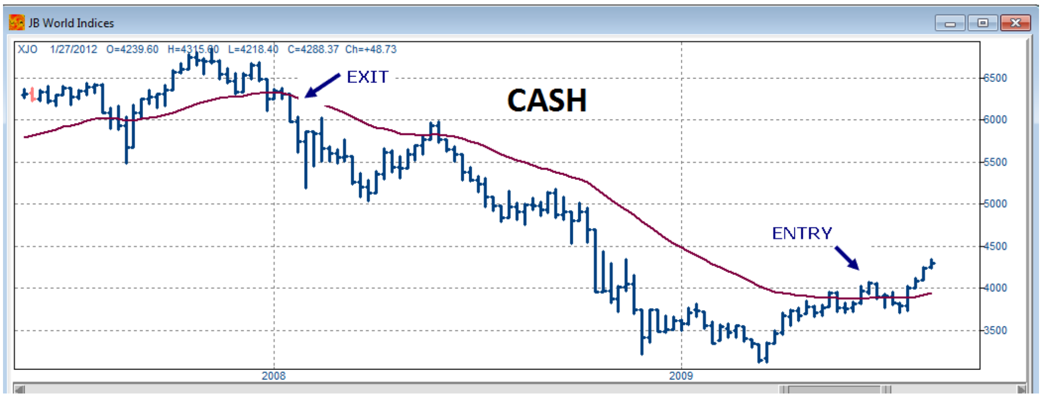
The weekly chart below is the **ASX200 Index** showing a rising trend over 2007 and the week in 2008 that I closed the newsletter notional portfolio (Jan. 7th) due to the falling trend (*Refer Newsletter Edition #133*).

ASX200 (XJO) Weekly Chart

The table below shows the opening price on the first day of trading in 2007 and on the exit day in January 2008. A modest growth of **3.6%** and a dividend income of **6 – 7%** is a satisfactory result.

Symbol	2/1/2007	7/1/2008	%
WBC	$24.25	$27.20	12.16%
NAB	$40.46	$36.65	-9.42%
CBA	$49.39	$57.30	16.02%
ANZ	$28.28	$27.00	-4.53%
		MEAN	**+3.6%**

The weekly chart below is the **ASX200 Index** showing the exit in 2008 and the rising trend signal in June 2009 (Refer Edition #207). This is an eighteen month period where cash is king and bank interest rates are the right investment.



ASX200 (XJO) Weekly Chart

The table below shows the price falls during this time frame. The difference between bank interest and negative growth **(-34.4%)** is significant.

Symbol	7/1/2008	15/6/2007	%
WBC	$27.20	$19.94	-26.69%
NAB	$36.65	$21.96	-40.08%
CBA	$57.30	$37.71	-34.19%
ANZ	$27.00	$17.16	-36.44%
		MEAN	**-34.4%**

The weekly chart below is the **ASX200 Index** showing the June 2009 entry and the July 2011 falling trend exit signal.

ASX200 (XJO) Weekly Chart

The table below shows the growth of the big four during this time frame. Add in two years of **6-7%** dividend income and this investor has a healthy return and a common sense wealth creation strategy combining growth and income.

Symbol	7/1/2008	15/6/2007	%
WBC	$19.94	$21.93	9.98%
NAB	$21.96	$24.91	13.43%
CBA	$37.71	$51.26	35.93%
ANZ	$17.16	$21.66	26.22%
		MEAN	**+21.4%**

This article is about choice. Long-term buy and hold investors may not be interested as they are usually comfortable with their investment strategies.

Beginners will find that opinions vary on a number of points, including:

- Investing in equities for income
- Time in the market is more important than timing
- Equities risk & volatility
- It is not a loss until you sell
- You can't time the market so you have to wear the pain of bear markets
- Investing for franking credits
- Don't sell as it means you will have to pay taxes

Beginners need to know they have a choice. Investing in equities carries risk. Dividend income is not sufficient to cover that risk. Income investors should consider bank term deposits and bonds as they carry significantly less risk. The difference in dividend interest, coupled with potential negative growth, over banks or bonds is not enough of a reward. Investing in growth plus income is a common sense strategy in a rising market. Cash is king in a bear market.

This article, by Jim Berg, with contributions from Marcus Padley, explains another side of a number of issues. Knowing a little about other options will help investors make informed choices about the strategies they use to make common sense decisions on how and when to invest their hard earned dollars.

IN THIS WEEK'S EDITION 344

Boys, there ain't no free lunches in this country. And don't go spending your whole life commiserating that you got the raw deals. You've got to say,
"I think that if I keep working at this and want it bad enough I can have it. It's called perseverance."

- Lee Iacocca

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