Avoiding the "Dividend Trap"

The Sequoia Concentrated Yield Strategy

Australian investors are often attracted to the dividends from high yielding companies as the compounding effects of reinvested dividend income plus capital growth potential can lead to outstanding results in the mid to long term. However, there a number of potential pitfalls to 'chasing yield' that many investors may not be aware of. These are known as "Dividend Traps".

The Sequoia Concentrated Yield Strategy

The Strategy is specifically formulated with the aim of avoiding Dividend Traps whilst targeting tax effective returns from a concentrated portfolio of companies with above average sustainable dividend yields, manageable debt levels and earnings growth potential.

The Strategy seeks companies paying dividends that attach higher than normal levels of franking credits. Franking credits are particularly beneficial to investment vehicles with low tax rates, such as SMSFs.

Common Dividend Traps

- ✗ Buying low quality, overvalued companies because they are paying high dividend yields
- ✗ Buying companies based on a dividend yield where the company has excessive levels of debt
- ✗ Ignoring Earnings Per Share (EPS) growth figures, dividend sustainability and future expected growth in Dividends Per Share.
- ✗ Not Participating in Dividend Reinvestment Plans when they are available and attractive

The KEY RULES of the Sequoia Concentrated Yield Strategy are:

✓ **Size**
The Strategy targets a concentrated portfolio of ASX listed shares with individual Market Caps of at least $500million at time of purchase.

✓ **Sustainable Dividends**
The Strategy has a targeted average yield (including franking credits) of at least 5.2% at time of purchase. The companies in The Strategy are required to have a solid track record of providing dividends, and a positive consensus dividend forecast.

✓ **Earnings Growth**
The Strategy targets companies that have a track record of an increasing Earnings Per Share (EPS), and a consensus forward forecast of increasing EPS. One of the key determinants of affordable and sustainable dividends is the quality of the underlying business and its ability to consistently grow earnings.

✓ **Comfortable Debt Levels**
The Strategy aims to select companies with debt to equity ratios within a manageable range and interest coverage ratios that are considered suitable for their particular sectors.

✓ **Positive Stock Sentiment**
The Strategy will seek to identify stocks that have a positive consensus sentiment rating from the major Australian research houses and broking firms.

✓ **Tax Effective Returns**
Because the shares will be held directly in the investment vehicle of your choice (e.g. SMSF, personal name, family trust), The Strategy will attribute an individual cost base for each of your shares, established for you on the day the shares are bought; unlike a traditional managed fund that can carry inherited tax consequences that come with purchasing units with potential tax liabilities. The Strategy also seeks shares that pay Franked Dividends.

Sequoia Financial Group – Investment Strategy Insight #4

Key Strategy Details

Item	Details
Targeted Number of Shares	Up to 15 ASX Listed Securities
Min Investment	AUD$20,000
Min Per Share Investment	AUD$5,000
Min Additional Investment	AUD$5,000
Payment of Dividend Income	Choice of cash & franking credits, or Dividend Reinvestment Plan (where available)
Initial Strategy Fee	Nil
Transaction Costs	Min $30 Per Share Trade, or 0.12%
Ongoing Strategy Fee	1.4%pa (inc GST) of portfolio value. Calculated and debited monthly.
Applications	Forms can be obtained directly from Sequoia Asset Management by phoning 1300 522644
Investment Philosophy	Our investment philosophy is based on the premise that investors often fall into the "Dividend Trap". The Strategy aims to avoid this happening by following a key set of rules to help deliver above average yields and capital growth.
Investor Profile	The Sequoia Concentrated Yield Strategy is designed for investors seeking above average yields from quality Australian Companies that carry a consensus view on upwards trending earnings & dividends.

Professional Investment Management

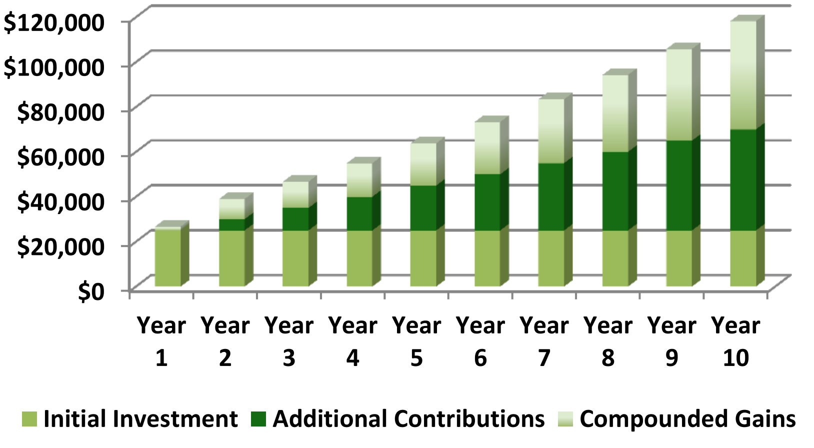
The Strategy is provided by a professional Investment Manager who will monitor your portfolio and provide you with online viewing access for transparency.

Compounding Returns with Dividend Reinvestment

"Compound interest is an incredibly powerful wealth creator. So much so that Albert Einstein is said to have referred to it as the 'eighth wonder of the world'..."

The effects of compounding returns works for investments the same way as it does with interest earned in a bank account. If you reinvest your dividends into buying more shares, your reinvested earnings will generate additional earnings.

Example: Garry decides to invest an initial $25,000 following the Sequoia Concentrated Yield Strategy. He intends to reinvest his dividends and add an additional $5,000 into The Strategy each year. Garry intends to retain his investment for 10 years. Assuming a return of 7% p.a. (capital growth and franked dividends), at the end of 10 years, Garry would have a portfolio value of $118,261.



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