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| Lesson 8  Making informed decisions about investments |
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Diversifying investments across industry sectors and companies is essential to ensure that risk is minimised. Investors will also use data to make informed decisions about the performance of a company. They will often look at charts that show the capital growth over a period of time, or calculate dividend yield to measure the performance of their investments. The following table shows some companies’ data as at 23 December 2022. This information can easily be found by searching the company name or code within the ASX website.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Company Name  and Code | Close or  Last Sale | Move + or – (cents) | Turnover or Volume | Dividend Yield % | Price/Earnings (P/E) Ratio | 52 Week High $ | 52 Week Low $ | Last Dividend paid per Share $ |
| Fortescue (FMG) | $20.57 | -$0.13 | 2,695,436 | 10.06% | 6.82 | $22.99 | $14.50 | $1.21 |
| Domino’s Pizza (DMP) | $65.01 | -$0.85 | 185,113 | 2.40% | 35.54 | $123.33 | $49.83 | $0.68 |
| JB Hi Fi (JBH) | $42.15 | -$0.41 | 292,796 | 7.49% | 8.83 | $56.85 | $36.69 | $1.53 |
| Suncorp (SUN) | $12.00 | -$0.11 | 1,678, 795 | 3.33% | 23.26 | $12.38 | $9.85 | $0.17 |
| Woolworths (WOW) | $34.06 | -$0.36 | 939,114 | 2.70% | 27.06 | $39.63 | $31.67 | $0.53 |

Activity 1

Use the above table to respond to the following questions:

1. **Identify** the company that had the widest range in its share price over the 52-week period?

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1. Refer to the *Close or Last Sale $* column which identifies the last selling price for a share on the identified day. **Identify** the closing price JB Hi Fi for 23 December 2022.

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1. The column *Move + or – (cents)* lists the amount by which the last sale price is up or down on the previous day’s close. This is expressed as cents per share. **Identify** the move, in cents, in the price of Woolworth’s shares from the previous day’s trading?

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1. *Turnover or volume* refers to the number of shares traded (bought and sold) that week. **Identify** the most actively traded share from the table on 23 December 2022?

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1. The *Dividend Yield %* is calculated by dividing the dividend per share by the current share price.



The dividend paid by the company is expressed as a percentage of its current share price (the yield changes when the share price changes). For example, if Suncorp shares are purchased at the closing price of $12.00, based on the annual dividend paid of $0.17 per share, an investor would expect a return of 1.42% for every share held. If the dividend stays the same and the price of the share rises, the dividend yield falls. Dividend yields are important for people who are buying shares primarily for the purpose of earning income from dividends, such as retired people. The Dividend Yield % allows them to identify if the return is high enough to continue with this investment as they may compare it to interest rates from placing their money at the bank. As shares go up and down in price daily, the yield will change based on this.

**Calculate** the Dividend Yield % for Fortescue. **Explain** how this Dividend Yield % may be viewed by a retiree.

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1. *Price Earnings Ratio (P/E)* is calculated daily by dividing the share price by the earnings per share (earnings per share is net profit divided by number of shares in the company issued). Investors use P/E ratios as a measure of how expensive a company is compared to others. When using P/E ratios it is best to use them when comparing similar companies in similar industries.

**Identify** the P/E ratio of JB Hi Fi on 23 December 2022?

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1. The highest and lowest sales recorded during the past year of trading. The measure includes the last 52 weeks; it is not confined to a calendar year.

a. **Identify** the lowest price for Woolworths for the 52 weeks up to 23 December 2022?

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b. **Identify** the highest price for Woolworths for the 52 weeks up to 23 December 2022?

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1. Select a company you would like to invest in and fill in the below table using data from the ASX website.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Company Name  and Code | Close or  Last Sale | Move + or – (cents) | Turnover or Volume | Dividend Yield % | Price/Earnings (P/E) Ratio | 52 Week High $ | 52 Week Low $ | Last Dividend paid per Share $ |
|  |  |  |  |  |  |  |  |  |

**Justify** why this may or may not be a good investment based on your personal circumstances.

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## Market Indicators

An index is used when measuring the performance of a group of similar companies listed on the ASX. The All Ordinaries Index, commonly referred to as the “All Ords”®, is used to indicate whether the sharemarket is going up or down on a daily basis. The All Ords® measures the price movements of approximately 500 of the more than 2000 companies listed on ASX. The All Ords® represents around 98% of the transactions in the domestic trading market, and is therefore a good indicator of overall market performance. A rising or falling All Ords® does not necessarily mean that every company in the index has risen or fallen on a particular day.

The S&P/ASX 200 is another index used as the main market indicator by investors. Similar to the All Ords”®, it measures the top 200 most commonly traded companies listed on the ASX. There are other Australian indices that measure performance across various industries. Further information can be found at <https://www2.asx.com.au/markets/trade-our-cash-market/overview/indices> . Refer to Lesson 3 & 4 to understand the importance of indices and the impact of major events on the performance of these indexes.

Activity 2

Go to <https://www2.asx.com.au/markets/trade-our-cash-market/overview/indices> and **identify** the indices for 3 market sectors.

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| 2. |  |
| 3. |  |

Activity 3

Read the following statements and decide whether they are true or false. You should refer to the tables above outlining key terminology, investment strategies, and ratios used in investing.

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| Statement | True | False |
| * + 1. Fundamental Analysis must be used in conjunction with other strategies to make it effective. |  |  |
| * + 1. A high P/E ratio may indicate that a share may be too expensive relative to the potential earnings through dividends. |  |  |
| * + 1. Technical Analysis uses charts to track patterns to assist in predicting trends to identify the best time to buy and sell shares. |  |  |
| * + 1. Dividend yields are the best way to track the value of shares over the long term as they indicate ongoing high levels of profits. |  |  |
| * + 1. Shares that are fully franked are more attractive to investors because they then pay less  income tax on them. |  |  |
| * + 1. Capital gains tax is payable by the investor on the dividends earned each year. |  |  |
| * + 1. An overvalued share may be a reflection of a company’s future potential. |  |  |

## Terminology (skill directives)

**Calculate** – Ascertain/determine from given facts, figures or information.

**Explain** – Relate cause and effect; make the relationships between things evident; provide why and/or how.

**Identify** – Recognise and name; Establish or indicate who or what someone or something is.

**Justify** –Support an argument or conclusion.

## Glossary

## Terminology commonly used in Investing

**Bull or Bear Markets** – A bull market is a rising market as a “bull” tosses market prices up. A bear market is a falling market as a “bear” claws market prices down.

**Franking Credits –** Also known as imputation credits, many companies in Australia pay tax to the Australian Taxation Office (ATO) on their profits. This tax paid is often made available as a deductible benefit to shareholders as a franking credit, possibly reducing the tax investors need to pay on dividend income.

**Company Tax –** Taxes paid by companies on profits made, directly to the Federal government. Currently companies in Australia are taxed between 25% to 30% on profits, depending on the size of the company.

**Capital Gains Tax –** Is the tax paid on the increased value of an asset by an investor at the point in which they sell their asset. For example, if a person purchases $1000 worth of shares and sells them in a year for $1500, they may need to pay tax on the $500 increase in value in the asset.

**Clearing House Electronic Sub-Register System (CHESS)** **–** A computer system used by the ASX to manage share transaction settlement and record shareholdings. Investors are given a Holding Identification Number (HIN) to easily identify their shares and to view all their shareholdings in one place.

## Strategies commonly used in investing

**Investing for Growth** – Buying shares at a low price and selling at a high price, achieving capital growth.

**Investing for Income** – Investing in companies that pay high dividends.

**Balanced** – A mix of both.

## Tools commonly used in Investing

**Fundamental Analysis** – This approach analyses the fundamentals of a company, the broader economy, industry sector, the management of the company, and the company’s competitors. Fundamental analysis involves an in-depth analysis of the company, including the company’s profits, dividends, its assets, and management. (Refer to Lesson 3 for information on influences relevant to fundamental analysis).

**Technical Analysis** – Technical analysis (also known as charting) involves looking at past movements in share price and the volume of shares traded in a particular company to identify any patterns that can be used to predict future performance. It can be used to complement fundamental analysis in the determination of the best time to buy and sell shares. This approach to investing looks at patterns and market trends to signal the best time to buy or sell a stock.

## Ratios commonly used in Investing

**Dividend Per Share (DPS)** – This indicates the dividend paid, expressed in cents per share. The last dividend in the company’s financial year is classified as final and all others are classified as interim. The DPS is calculated by adding any interim dividends and final dividend payments. If a company increases its dividend substantially the stock will have greater appeal to investors who are looking to earn income from their investments.

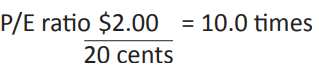
**Dividend Yield** – This measures the return on money invested. It is calculated through the formula:



It is used to compare the income generated from dividends compared to other investments. Investors should consider that this ratio will change depending on the dividend paid by a company year-to-year and may be difficult to predict.

**Earnings Per Share (EPS)** – Earnings per share are calculated by dividing the net profit of the company by the total number of shares issued. A history of the EPS paid by a particular company shows the growth in earnings from one year to the next and the relative size of earnings to dividends.

**Price Earnings Ratio (P/E ratio)** – This ratio is commonly used to ascertain a stock’s relative value, to ascertain if it is overpriced. It is calculated by dividing the current share price by the earnings per share (EPS). For example, for a company that has earnings of 20 cents per share when the share price is $2.00:



A high P/E ratio indicates the company’s share price is high relative to its earnings. This may be because investors have confidence in the future growth of the company. It may also indicate that a company is too expensive. P/E ratios tend to be higher when the economy is booming. P/E ratio comparisons between companies have more relevance when in the same industry i.e. comparing the P/E ratios of NAB with the Commonwealth Bank.

**Net Tangible Assets (NTA)** – NTA gives an indication of what each share in a company is worth if all the assets were liquidated (sold) and all debts were paid and the proceeds were distributed to ordinary shareholders on a per share basis. NTA is frequently referred to as the asset backing per share. Investors sometimes use the NTA to assess the desirability of a share. If the NTA figure is higher than the share price, it may mean that the company is undervalued. This may make it more likely to be involved in a corporate take-over. If the NTA is less than the share price then the market may be overvaluing the company or it may be a reflection of the company’s future potential.