

Do your homework when hunting for yield

LOW interest rates are good for borrowers, but for those needing steady and reliable cash flow streams, such as retirees, falling rates are bad news.

And while the Reserve Bank decided to let Green Moon take the limelight on Melbourne Cup day by holding fire on another rate cut, the word around town is that it may drop the cash rate before Christmas.

Bank term deposit rates out to five years have now fallen below 5 per cent, and although money in the bank is relatively safe (thanks to the Federal Government's \$250,000 bank deposit guarantee), it certainly isn't paying much.

The "yield chase" is on and it's regularly producing some surprisingly useful outcomes. A clear trend is emerging whereby investors are focusing on blue-chip equities delivering solid dividend yields be-

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ENVIRONMENT REPORTER, TONY KAYE



tween 6 per cent and 8 per cent, and as they do the prospect of share price appreciation is enhanced.

The dividend yield is the ratio between a company's share price and its dividend payout per share. It shows as a percentage the amount of cash flow being generated from the total investment holding.

According to State Street Global Advisors, the current average share-market yield is about 4.8 per cent. But shareholders of the major banks are getting much better returns from dividends, with yields ranging

from about 5.7 per cent to 7.7 per cent based on current share prices. There are also good yields in the 6.5 per cent to 8 per cent range in such areas as telecommunications and listed utility stocks.

Steady dividend streams at decent yields are the main advantage of investing in companies that offer income as well as share price appreciation. Indeed, the dividend payouts from Australia's biggest companies have actually increased over recent years, despite the impact of the global financial crisis. And the wash-up from the most recent corporate reporting season also showed that, on average, companies lifted their dividend payouts by about 7 per cent.

But Australia's favourable tax regime is also a drawcard for equity investors, with shareholders in a large number of companies receiv-

ing fully franked dividends - in other words, the taxation of dividends has been partially paid by the company issuing the dividend.

Those in retirement also have the ability to structure their affairs so they are paying no tax - meaning they get a tax refund of any franking credits received.

The third bonus element is a direct outcome of the chase for higher yields. As more and more investors divert their funds into stocks paying higher dividends, this increased demand has helped stabilise and, in some cases, push up the share prices of the stocks in highest demand. The big banks have come off their recent peaks over the past month, but like the overall market are generally ahead of their trading levels mid-year.

The focus for yield hunters should be on companies that are likely to

maintain, or increase, their dividends over time. In the weeks ahead, Eureka Report will have a special focus on the "yield chase" and where to find the best value.

Higher-yielding shares pay a higher dividend compared to their share price, but often the ratio doesn't tell the full story. There are several examples of companies with dividend yields upwards of 40 per cent, but their stories reflect a sharp fall in their share prices coupled with an unadjusted dividend rate. In reality, it is more than likely these companies will cut, or totally stop, their dividend payouts. Some will battle for financial survival.

The lesson here is that investors hunting for yield through equities do need to do their homework, especially when using dividend yields as their measure.

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Effort merits a sweet result



ENTERPRISING: The Australian Carob Company owner Michael Jolley is delighted his carob products are being recognised.

Picture: SUPPLIED

A GARDENER by trade for the past 20 years, Michael Jolley has finally moved full-time into the carob business which he has been painstakingly building up in his spare time for the past 12 years.

Mr Jolley and wife Jam started The Australian Carob Company at Boorowie near Burra with the planting of 6000 trees in 2000.

Their long and patient wait for success has finally started coming to fruition in the past year with the production of food products such as carob syrup, powder, kibble and carob buttons.

From the only fully integrated commercial carob processing kitchen in Australia, they are dedicated to producing carob products which are not only healthy and high in nutritional value, but full of flavour and great tastes.

The Jolleys were recognised for their hard work in developing a new industry by winning the innovation category (fewer than 10 employees) at the SA Food Awards last weekend.

SILENT ACHIEVER

NIGEL AUSTIN



It followed shortly after the company won the innovation award in the 2012 Advantage SA Regional Awards for the Mid North and Yorke Peninsula.

"It's great to be recognised for doing something different and creating a new industry because everything else in Australia is imported," Mr Jolley said.

"The key to our operation is the varieties we grow and the processing we do and we are striving to make sure that our products are the best available anywhere in the world."

The Australian Carob Company is the largest carob producer and the only commercial processor in Australia since it bought its carob processing equipment in 2010.

Since starting to market its products one year ago, it has reached out to interstate markets in the past five months with outlets around Australia for its unique brand of carob products with their distinct flavour.

"People are blown away by the quality and taste we produce and we are getting a lot of demand because of the significant health benefits of carob," Mr Jolley said.

"Carob is great for the digestive system and for conditioning the bowel and recognised for its ability to lower cholesterol."

Mr Jolley said diabetics also favour carob because it helps regulate insulin levels, while various other medical benefits are claimed for carobs.

They produce the only true raw carob powder available in Australia

which can be used for cooking, shakes, yoghurts and drinks.

The success with its range of consumer products has also seen The Australian Carob Company finally move towards profitability.

"It has been a long road in the past 12 years working flat out and to finally

see some rewards is very gratifying," Mr Jolley said.

Mr Jolley said his carob trees will produce about 100 tonnes of carob pods this year and believes they will ramp up to about

600 tonnes annually within five years.

The Jolleys planted the 6000 grafted trees in their 32ha carob orchard in 2000 with seven varieties.

Mr Jolley said they take pride in ensuring each individual tree has the appropriate water requirements and correct pruning year round.

“It's great to be recognised for doing something different and creating a new industry.”

—MICHAEL JOLLEY

Burma potential Asia asset

BURMA could become Asia's next economic engine if it enacts vast reforms, the IMF says, signalling the country could receive a Fund monitoring program in 2013.

"With a commitment to strong reforms, Burma has the potential to vastly improve the living standards of its people and emerge as Asia's next rising star," IMF mission chief in Burma Meral Karasulu said.

The International Monetary Fund said the discussions pointed to the possibility of a staff-monitored program next year that would jointly monitor progress on the government's own reform plans.

Karasulu said the government had made rapid strides in reforms to modernise the economy since taking over from a military junta in 2011.

\$12bn for European space race

SCIENCE ministers from the 20 member states of the European Space Agency have approved a budget of \$12.8 billion over the next three years, despite the continent's economic woes.

The budget includes funds for the eventual transition to the Ariane 6 rocket, a more flexible launch system than the current one, which would allow the agency to launch small, medium and large satellites.

"Today the Ariane 6 is born," ESA spokesman Franco Bonaccini said.

The ESA will first build a modified version of the current Ariane 5, before launching the Ariane 6. Ministers also approved Europe's participation in NASA's new Orion spacecraft, developing the service module that propels the capsule.