Switzer Super Report
Advice you can trust

Thursday 18 February 2016

Going for growth

Despite all the market tumbles both at home and overseas the current earnings season hasn't been too bad. Today, Charlie Aitken revisits a stock pick that has done well this earnings season. It's a business set for big things! Also in today's *Switzer Super Report*, Tony Featherstone looks at some opportunities in the defensive sectors – investors can still get in!

Graeme Colley takes an in-depth look at "close relations" risk and return and it's not just about investing. Christine St Anne also uncovers some expert stock picks that have reported some good growth numbers from the recent reporting season and in *Questions of the Week*, we look at the valuations of Bendigo and Adelaide Bank and investment mantras.

Sincerely,

Peter Switzer

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36-40 Queen Street, Woollahra, 2025
T: 1300 SWITZER (1300 794 8937) F: (02) 9327 4366

Baby Bunting: delivering growth

by Charlie Aitken

While equity markets will remain volatile over the medium term, I continue to remind myself it's *"a market of stocks, not a stock market".*

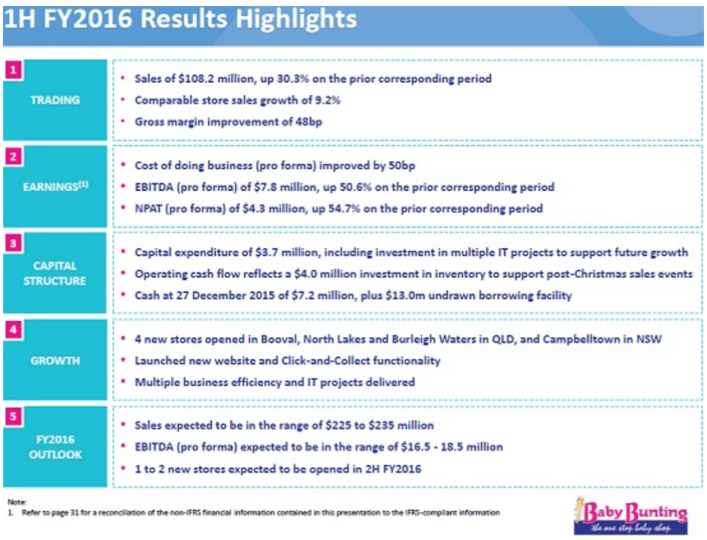
By that I mean even in a bear market, or whatever this is, there are always companies globally and locally that are GROWING their sales, margins and profits. If you can grow your sales, margins and profits/dividends, all things being equal in a world where growth is getting harder to find, it should lead to share price appreciation over the medium term.

I invest on a structural growth at a reasonable price basis (SGARP). By that I mean I invest in sectors where I see structural growth tailwinds and then try to identify bottom up the single best company with leverage to that top down macroeconomic growth theme.

Last year I wrote to you about **Baby Bunting (BBN)**, a newly listed Australian small cap company that I believed had all the attributes of a structural growth stock in a structural growth sector. The stock has performed well since that note. T**he very good news is that BBN has passed its first test as a listed company**, **materially beating prospectus forecasts and lifting forward guidance solidly**. **This is EXACTLY what you want to see from a structural growth stock and has further increased my confidence in the BBN management team and conviction in our shareholding in BBN.**

Just to recap what BBN is: Baby Bunting is Australia's largest specialty retailer of baby goods, aiming to provide customers with the widest range of products, high levels of service and low prices every day. The company was founded in 1979, operates 35 stores across Australia, with the leading specialty baby goods website by number of visits. The target market is parents-to-be, parents, friends and family, purchasing products for the 0 to 3 years age group. Principal product categories include prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, manchester and associated accessories.

The great investor Peter Lynch (Fidelity Magellan Fund) said the best investment ideas you see with your own eyes in everyday life. I still believe that is very, very sound advice. As the father of two young children I feel well informed when it comes to the Australian baby goods sector. I have always thought it was a sector ripe for consolidation and a genuine dominant industry leader to emerge. Just think of this sector like the hardware sector 20 years ago, before Bunnings emerged on to the national scene. I genuinely believe BBN has the clear opportunity to emerge as that truly dominant player in what remains a fragmented and financially weak sector. The 1HFY16 result and outlook commentary confirm BBN is on track to become that dominant industry player.



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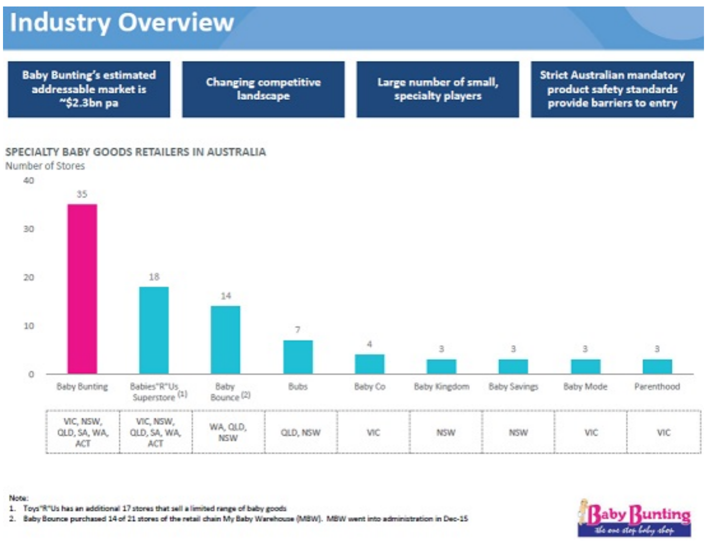
There is everything to like about the slide above.

+30% sales growth, same store sales growth +9.2% and gross margin improvement. Other positives for the business include strong financial metrics (net cash on balance sheet), store rollouts on track, and a 10% lift in guidance. This all leads to the analysts, who cover the stock UPGRADING FY16 EPS +8% and FY17 by around +6%. The new consensus forecasts for BBN for this year, FY17 and FY18 are below. This confirms real growth in the forecast period.

BBN	FY16	FY17	FY18
Revenue	$232m	$276m	$322m
EBITDA	$17.6m	$21.4m	$26m
Net Profit	$9.83m	$11.9m	$14.6m
EPS	8c	10c	12c
EPS Growth	43%	21%	22%
DPS	5c	7c	9c
DPS Growth	N/A	40%	28%
Dividend yield	2.2%	3.0%	3.5%
EV/EBITDA	17.3x	14.3x	11.8x
Net Gearing	-8.53%	-8.29%	-8.78%
ROE	11.5%	13.1%	15.6%
PEG Ratio	.72x	1.23x	.95x

My view, as it was in my first note on BBN, is these forecasts will prove conservative and BBN will be in a multi-year earnings upgrade cycle driven by gaining further sustainable market share gains in addressable market of $2.3b in sales per annum.



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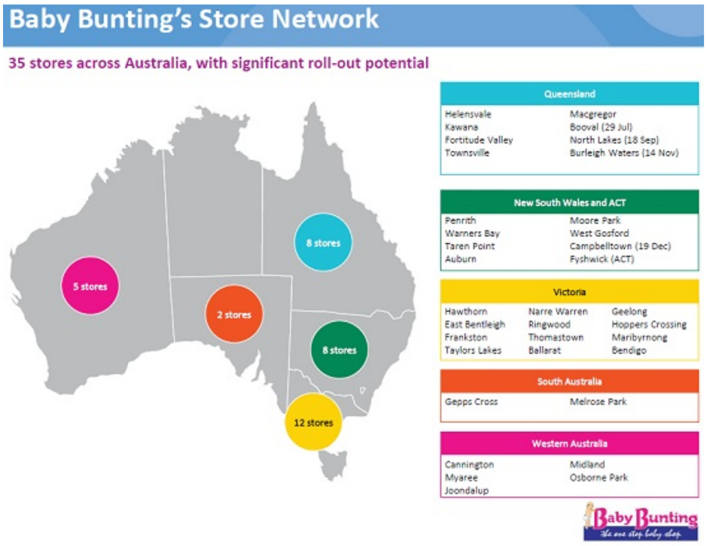

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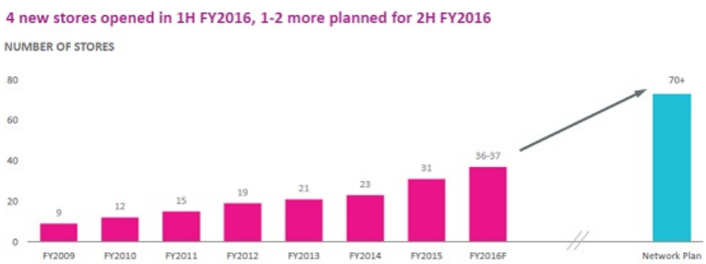
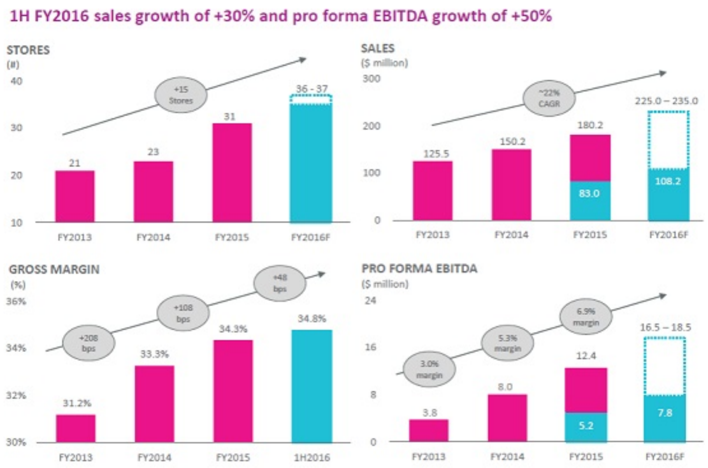
BBN also has a strong online offering which complements its bricks & mortar business. In the 1HFY16 [www.babybunting.com.au] saw a +35% increase in website visits and +44% for the month of December year-on-year. There was a +48% increase in online sales on the pcp. Interestingly, BBN now has 115,000 Facebook followers, reminding you of the major structural change that is happening in advertising.

The rollout of stores continues at a good clip, with four new stores opened in 1HFY16 and two more expected in the 2H. BBN confirms a pipeline of new store opportunities has been identified for FY17, targeting four to eight new store openings per year. BBN identified 70+ trade areas based on demographic, location and competition parameters. 40% of remaining sites are in regional locations with populations greater than 200,000.



The financials are all heading in the right direction and hopefully this is the start of a long period of structural growth and increasing cash generation.



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In terms of the near-term outlook, which is important in a medium-term structural growth story, BBN said that "strong trading has continued into 2H FY16 with year-to-date comparable store sales growth increasing to +11.2% as at January 31st 2016".

As I mentioned above, BBN UPGRADED their FY16 guidance by around +9%, which led to consensus analyst upgrades for FY16, FY17 and FY18.

All in all, I am even more convinced this small cap company will become a mid-cap company over the next five years. They have the management skill and financial firepower to execute a strategy that gets to ***"category killer"*** status. It's only early in the life of this public company but they are more than passing the test since listing.

Analysts have upgraded 12-month forward price targets to around $2.85, a level I think will prove conservative.

The Aitken Investment Management Global High conviction Fund has increased its holding in BBN around $2.50 since the solid 1HFY16 result and guidance upgrade, believing this story has a long-way to run and looks a classic situation of a top down structural growth (population growth, consumer spending), meeting a bottom leverage via organic growth and good execution.

With structural growth hard to find, I think BBN will be re-rated as more investors discover this story. I encourage you to look at this growth stock as I did six months ago. I am high conviction on BBN.

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5 top defensive prospects

by Tony Featherstone

The only certainty in equity markets right now is more uncertainty. So it is no surprise that investors have clamoured for defensive blue-chip stocks with reliable dividend yield.

Companies with monopoly-like assets, such as airports and toll roads, appeal in an increasingly fragile global economy. As does owning dependable dividend stocks in a market where most of the total return in 2016 will come from yield rather than capital growth.

But the defensive/dividend trade has become increasingly crowded. Rising prices for infrastructure stars, such as Sydney Airports and Transurban Group (TCL), leave little room for error, as do valuations for APA Group (APA), AusNet Services (AZI) and other utilities.

The best defence, of course, is identifying exceptional companies and buying them when they trade below their intrinsic or true value. Paying too much for assets – defensive or otherwise – is never a good idea in the long run. Look what happened to investors who overpaid for the big banks and Telstra Corporation (TLS) at their peak, in the quest for yield.

Knowing how to spot “defensive” stocks and not be suckered by labels is critical. Genuine defensive stocks have an “economic moat” or sustainable competitive advantage that is typically reflected in a high, rising Return On Equity (ROE) over time.

Many investors turn to the utilities and infrastructure sectors because their best companies have assets that are hard to replicate and harder for consumers to avoid. Rising population growth and favourable regulatory settings can be significant tailwinds for these sectors.

The top Australian Real Estate Investment Trusts (AREITs) have defensive qualities too. Not that investors would picture the sector as a “defensive” play, after the largesse in the previous decade when AREITs collectively borrowed too much and expanded too aggressively. But income from long-term leases in A-grade buildings is, in theory, less volatile than corporate profits.

Companies don’t always need monopoly assets to have a defendable sustainable advantage. Lifesciences company CSL (CSL) seems an odd choice as a “defensive” stock but its patents, reputation and knowledge are formidable advantages. It has barely missed a beat over the past five years, with an average annualised total return of 26%.

REA Group (REA), too, seems far more cyclical than defensive, given its real-estate exposure. But the “network effect” of its online platform attracting more users, which in turn attracts more advertisers and thus users, is a barrier for competitors and a lure for investors willing to cop REA’s high valuation.

And what of Woolworths? (WOW) For a time, it was supposedly as defensive as it gets because customers always need to eat. Then it tumbled this year, as investors realised even duopolies can be belted and that a disastrous foray into hardware retailing had diminished Woolworths’ defensive qualities at a time when investors craved certainty.

The point is: defensive assets exist across the market, not only in a handful of sectors. Going to the same sources for defensive investments risks joining the “crowd” after the event and overpaying for assets. New options, such as exchange-traded products, can be used to minimise risk, and even certain commodities can play a defensive role in portfolios.

With that in mind, here are five ideas for defensive investors.

1. Consumer staples

Leading consumer-staples companies have valuable defensive qualities: demand for food and other "staples" remains reasonably constant despite economic ups and downs. Sadly, the Australian market lacks large, investment-grade consumer-staples companies. Woolworths and Wesfarmers (WES) have significant discretionary retailing operations in their discount department stores. And Wesfarmers, great company that it is, has a conglomerate model that reaches to the more volatile resource, fertiliser and insurance industries.

Overseas markets provide better exposure to household-name consumer-staples companies. The ASX-quoted iShares Global Consumer Staples ETF is a simple way to expose portfolios to companies, such as Nestle SA, Procter & Gamble and Wal-Mart Stores.

Almost 60% of the ETF is in the global food, beverages and tobacco sector and another 20% is in food and staples retailing. The ETF is unhedged for currency movements, so investors need to be confident the Australian dollar is not about to rally. Further falls in our currency, as I expect this year, would boost returns. The EFT trades on an average trailing Price Earnings (PE) multiple of 21 times. Wesfarmers trades on almost 20 times and Woolworths is on 16.4 times. Paying a slightly higher valuation multiple for exposure to a portfolio of the world's best consumer-staples companies, which enhances diversification and reduces risks, appeals.

Chart 1: iShares Global Consumer Staples ETF

Source: Yahoo!7 Finance, 18 February 2016

2. AREITs

Macquarie Equities Research compared valuations in the AREIT, infrastructure and utilities sectors in late January. Its conclusion: utilities offer the highest expected dividend yields, infrastructure stocks offer the highest expected total return, and AREITs offer the greatest distribution certainty. Overall, AREITs had the best outlook.

I nominated Westfield Corporation as [one of five top stocks to buy] during market weakness for the *Switzer Super Report* in early January, and maintain that view. Westfield has rallied from $9.19 to $9.80 since that report in a falling market.

Westfield's high exposure to the US economy, which has better prospects than most developed countries, is attractive. Significant rental increases when some of its leases are renewed in 2017 and asset revaluations are other potential re-rating catalysts.

GPT Group (GPT) also appeals. It has a solid balance sheet, reasonable earnings and distribution certainty, and a quality portfolio of commercial properties on Australia's East Coast. Its long-term leases provide defensive earnings in a volatile market.

The market has mixed views on GPT. Four of eight analysts have a buy recommendation, four a hold and two a sell, consensus analyst estimates show. A median target price of $4.81 suggests GPT is fully valued at the current $4.91.

GTP can do better than the market expects, as investors favour defensive, yield-focused AREITs, and it looks more reasonably valued than its largest peers. It has greater scope to increase rents and decrease costs than most defensive 'rent collectors' in the AREIT sector. Recent leadership changes and a new business structure at GPT should provide further impetus in the next few years.

Chart 2: GPT Group

Source: Yahoo!7 Finance, 18 February 2016

3. Infrastructure

Sydney Airport (SYD), a core idea of this column in the past few years, continues to impress. Rising international visitations to Australia and steady growth in domestic travel are strong tailwinds for the airport owner.

Sydney Airport has rallied from about $6 in early January, when I nominated it for this Report as one of five stocks to own in 2016, to $6.40. Current shareholders should hold on; prospective owners might wait for an inevitable price pullback. Sydney Airport is fully priced rather than excessively so given the unfolding boom in Asian tourism to Australia.

Like Sydney Airport, toll-road operator Transurban has fabulous assets and a hefty price tag. It fully owns the CityLink tollway in Melbourne, and fully or partially owns several key roads and tunnels in Sydney, Brisbane and the United States.

Transurban looks well positioned to lift its dividend over the next few years, as growing traffic congestion increases toll-road volumes and as road widening and other strategic initiatives boost earnings. But a high valuation makes it hard to buy at the current price.

Internationally focused toll-road operator Macquarie Atlas Roads Group has more valuation appeal. It has interests in toll roads in France, the United States, Germany and the United Kingdom, and has been a good performer over the past five years.

Macquarie Atlas (MQA) is enjoying solid growth in traffic volumes on most of its roads, and recent concession extensions on the Autoroutes Paris-Rhin-Rhône (APRR) show the potential to increase earnings on the European roads. The APPR, part-owned by Macquarie Atlas, is Europe's fourth-largest motorway.

A better result from Macquarie Atlas's US roads, a source of lingering market concern, is another positive. Like Transurban and Sydney Airport, Macquarie Atlas has had a strong rally and it has been volatile over the years. But a forecast PE of 16 times, using consensus estimates, compares favourably with its larger infrastructure peers.

Chart 3: Macquarie Atlas Roads Group

Source: Yahoo!7 Finance, 18 February 2016

4. Utilities

Telstra Corporation, the king of defensive dividend stocks in recent years, looks more interesting after falling from a 52-week high of $6.66 to $5.44.

With Sydney Airport and Westfield Corporation, Telstra was nominated in January (at $5.30) for the *Switzer Super Report* as one of five stocks to buy during market volatility.

Telstra's superior mobile network and the scale derived from its market share and infrastructure are a formidable economic moat for competitors. Rising competition in mobile telephony is a concern, but few stocks can match its defensive qualities.

Telstra is approaching value territory. At $5.44, it trades on a forecast PE of 15.5 times using consensus estimates, and has an expected grossed-up dividend yield of about 8% (after franking). The market is concerned about Telstra's dividend sustainability, but it has more dividend appeal than the big-four banks in the next few years.

Chart 4: Telstra Corporation

Source: Yahoo!7 Finance, 18 February 2016

5. Gold

Investors who have dabbled in gold equities might regard the precious metal as the opposite of defensive investing. Gold equities, collectively, have badly underperformed the market over five years and have had a knack of destroying wealth.

From an asset-allocation perspective, gold bullion has useful defensive qualities and a role in portfolios. Income investors should stop reading now because gold offers no yield. For those in the asset-accumulation phase, an allocation of up to 5% of portfolios (less when risk appetite returns) to gold can act as a form of insurance in a financial-markets storm.

Gold's safe-haven qualities have come to the fore this year as equity-market volatility has driven the precious metal and gold equities higher. China's devaluation of the Yuan and an intensifying global currency war reminded investors of gold's traditional role as a store of value. Signs that rises in US interest rates and the Greenback could be more gradual than previously thought also buoyed the gold sector.

I see the Australian-dollar gold price heading higher in 2016, albeit with a few setbacks along the way. It is due for a bigger price pullback after such strong gains in 2016, and that could present a buying opportunity for long-term investors. Portfolio investors who want pure exposure to gold should favour bullion over gold equities, which add company and market risks.

The ANZ ETFS Physical Gold ETF is a simple way to add gold to portfolios. Bought and sold like a share on the ASX, it is exposed to the US-dollar gold price so investors need to form a view on the currency. Those who prefer to eliminate currency risk could use the BetaShares Gold – Currency Hedged ETF.

Chart 5: ANZ ETFS Physical Gold ETF

Source: Yahoo!7 Finance, 18 February 2016

• *Tony Featherstone is a former managing editor of BRW and Shares magazines. This column does not imply any stock recommendations or offer financial advice. Readers should do further research of their own or talk to their adviser before acting on themes in this article. All prices and analysis at 17 February 2016.*

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Aurizon Holdings (AZJ) Upgrade to Buy from Neutral B/H/S 4/4/0

Interim financials (underlying in-line) were playing second fiddle with investors focused on what can and is likely going to go wrong, given severe pressures among Aurizon's customers in the bulk commodities sector. Management is not going to achieve its targets, that much Citi analysts agree upon.

Where they differ from general market sentiment is in the attractiveness of the yield on offer. Expecting the board to cut the pay-out ratio, Citi suggests investors are currently ignoring the yield and hence passing on an attractive opportunity.

Bendigo and Adelaide Bank (BEN) Upgrade to Buy from Neutral B/H/S 1/4/2

Interim financials proved a significant beat but the market chose to zoom in on the underlying lack of operational momentum, point out the analysts. A big chunk of the upside surprise came from property revaluation profits.

Citi analysts see positives in the lack of asset quality concerns and the fact the Net Interest Margin (NIM) is likely to lift in the second half, supported by mortgage re-pricing.

Myer Holdings (MYR) Upgrade to Neutral from Underperform by Macquarie B/H/S 4/2/1

Macquarie notes David Jones has grown sales above market rates as suggested by the Woolworths SA results. Given the favourable consumer backdrop, the broker expects Myer will also perform.

Given the operational leverage in the business model and the low expectations factored into the share price, the broker believes the risk is to the upside in the short term and has upgraded the stock.

National Australia Bank (NAB) Upgrade to Add from Hold by Morgans B/H/S 3/4/0

National Australia Bank's quarterly earnings update outpaced the broker but failed to impress, given surprisingly low impairments concealed soft underlying earnings.

Morgans upgraded to reflect the recent share price retreat, with a target of $26.20.

In the not-so-good books

Beach Energy (BPT) Downgrade to Equal-weight by Morgan Stanley B/H/S 2/3/0

Oil markets may take longer to recover than many market participants believe, in Morgan Stanley's view. The broker lowers long-term oil price forecasts to US$60/bbl and believes reserves reporting may emerge as the new debate in 2016.

The broker believes parts of the Cooper Basin are more challenged in the lower commodity environment and downgrades Beach Energy.

CSL Limited (CSL) Downgrade to Neutral from Outperform B/H/S 4/3/1

CSL's first-half profit met the broker's forecast, outpacing it on some earnings metrics.

But Credit Suisse notes an underlying schizophrenia, strong earnings on the base business being offset by a higher than anticipated ex-Novartis operation loss, thanks to weaker sales in the northern hemisphere relating to its QIV vaccine, a problem that could resurface in fiscal 2017.

Reckon (RKN) Downgrade to Underperform from Neutral B/H/S 0/3/1

Reckon's profit fell short of consensus due to the cost of growth initiatives, including marketing and amortisation of the accelerated development of Reckon's "cloud clouding" platform. The results of a strategic review will see further investment in marketing and offshore expansion, the broker notes.

It will take time for such a strategy to prove it is the best way to increase shareholder value, thus long term uncertainty suggests a possible price-to-earnings de-rating in the meantime, Macquarie warns.

Santos Limited (STO) Downgrade to Underweight from Equal-weight by Morgan Stanley B/H/S 5/1/2

Oil markets may take longer to recover than many market participants believe, in Morgan Stanley's view. The broker lowers long-term oil price forecasts to US$60/bbl and believes reserves reporting may emerge as the new debate in 2016.

The broker believes Santos is one of the most exposed of the major oil stocks to the lower-for-longer oil price, given the debt issues. The stock's rating is therefore downgraded.

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Close relations: risk and return and what it means for SMSFs

by Graeme Colley

When you think of the relationship between risk and return, you probably think about investments. However, there's much more than that when it comes to the operation of a self-managed superannuation fund (SMSF).

Risk involves the trusteeship of the SMSF, compliance issues and, of course, the SMSF's investments. By reducing risk, we usually experience less volatility in the operation of the SMSF and less angst about how things are going.

The ultimate aims are to reap greater returns financially and attain a higher quality fund, due to the greater attention being paid to its overall operation. In this article we will consider some of the risks that could be experienced by a fund trustee in relation to their investment obligations made on behalf of the members and other beneficiaries, including the member's dependents.

Let's look at the fund's investments and the relationship between the risk and return associated with the requirement of the trustee law that the trustees must invest to the benefit of members.

Amounts the SMSF receives as income from investments, such as interest or dividends, reinvestment of sold or matured investments and contributions must be invested or reinvested as required by the trust deed and the covenants in section 52B of the Superannuation Industry (Supervision) Act (SIS Act). Failure to meet these requirements exposes the trustee to a range of risks and potential 'penalties'.

The first is a challenge from beneficiaries that the trustee has not taken into account their fiduciary responsibilities as trustee. The second is that if the trustee fails to have an investment strategy or put it into place, they can be challenged under section 55 of the SIS Act, if they are liable for their lack of appropriate action.

Breaches here could result in the trustee personally being required to compensate the injured party from their own resources. In addition, the regulator or courts may impose rectification directions or financial penalties on the trustee for the breach. In the worst situations, it is possible the trustee could be disqualified as acting as a trustee of any superannuation fund – something to be avoided at all cost.

Traditionally, the usual context of the use of the words risk and return relates to the risks associated with the SMSF making any investment. From a theoretical and practical point of view, there is usually a very strong correlation between risk and return in an open market.

The trade-off between risk and return refers to the potentially higher rates of return associated with taking greater risks. The most obvious example of this is in making a bet at the races.

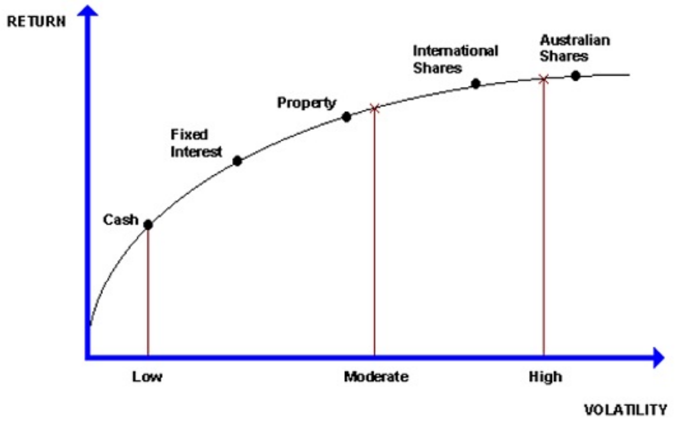
The likelihood of a 100 to 1 winner coming home in first place is considerably less than an even money favourite. However, if that event occurs and the outsider comes home, the returns are significantly higher.

In the investment world, it is generally considered that of the various investment classes such as cash, bonds, property and equities, it is cash where the loss of capital is usually the lowest and equities, particularly mining shares, where the likelihood of loss is the greatest.

There are many other investments where the risk and return relationships may be higher than equities or lower than cash, however, these categories are used to provide a good indication of how the relationship operates.

This chart provides some idea of the relationship between risk and return and how the potential risk increases as the trustee's desire for greater returns increases:

Relationship between risk and return



When a trustee considers the fund's investment strategy, they must determine an acceptable level of potential risks and level of expected returns, taking into account the investment provisions of the fund's trust deed, the SIS legislation and the risk profile of the fund's members.

Increasing or decreasing the exposure of the fund to particular asset classes by diversifying the investment portfolio may manage potential risk. This reduces investment risk, as it is unlikely that all asset classes will perform poorly all at once and a loss in one class will usually be cushioned by an increase in another class.

Diversification can create an environment where there is a greater likelihood of an expected return being achieved by the fund. It can be achieved in a number of ways including across asset classes or individual investments within a particular asset class. For example, cash compared to higher risk equities or long-term fixed interest investments, compared to short-term fixed interest investments.

SMSFs with low balances may have difficulties with diversification because there may be less to invest and may not have access to some investment types due to the cost of entry to the investment, for example, direct real estate investment. A fund that has or is likely to have a relatively higher asset concentration must take into account that it will be able to meet its liquidity and cash flow requirements and, as time passes, use future contributions and investment earnings to diversify and expand the fund's investment portfolio.

Risk and return when it comes to an SMSF is much more than just investments. It has to do with the whole operation of the fund by the trustees, the investment strategy and the overall compliance of the fund with the legislation, to name just a few of the things on which trustees need to concentrate.

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Short n' Sweet – Nick Scali and JB Hi-Fi

by Christine St Anne

Big names have garnered the spotlight this reporting season. On Switzer TV this week, Paul Rickard said the season is not too bad, with results from CBA, Cochlear, Boral, AGL and BlueScope all "up there".

Today, I want to look at stock picks by some of our *Switzer Super Report* experts and see how they have stacked up this reporting season. These stocks are not in the big market cap league of CBA and BHP but have managed to report some solid results.

Charlie has already provided a detailed analysis on Baby Bunting's (BBN) maiden results, outlined in today's article. Charlie made the call back in November 2015 and says there is growth in this business and "my core belief is you can ONLY make sustained capital gains in companies that are sensibly growing their businesses".

That was then and this is now. The February reporting season saw sales in the infant-goods warehouse chain up 9.2% to $108 million in the six months to December 27.

Let's look at some other picks from our experts.

Nick Scali

The well-run retailer has barely put a foot wrong in the last few years, according to Tony Featherstone. "An average ROE of 33% over the past five years is outstanding for any company, let alone a small retailer," Featherstone said in his note on retailers that are beating the retail gloom.

Well, Nick Scali's half-year profit was a record high – soaring more than 40% to $14.1 million in the six months to December 31. The strong result was on the back of the property market boom in Sydney and Melbourne, as discerning home buyers sought to furnish their homes in the distinct Nick Scali style.

The retailer has forecast a rise of up to 41% for its full-year profit and faces a strong growth outlook. The retailer has plans to add up to six more stores to its existing 48 chains over the next year. On the day of Nick Scali's announcement (9/2/2016), shares in the business rose 6%, while the wider market experienced steep falls.

Source: Yahoo!7 Finance, 18 February 2016

JB Hi-Fi

James Dunn suggested JB Hi-Fi was well positioned for the growth in sales during the December 2015 Christmas season.

Dunn said iPhones, gaming (hardware and software), TV audio, computer and tablet sales were the categories expected to drive JB Hi-Fi to a reasonably strong Christmas sales period.

Indeed, JB Hi-Fi's net profit rose 7.5% to $95.2 million in the six months ended December, boosted by strong sales in each of these categories.

Earnings-per-share was $0.961, an increase of 7.5% on the prior period. Total sales rose 7.7% to $2.12 billion.

The retailer is gearing up to take market share, following the demise of the Dick Smith stores.

"Our job is to gain market share from any of our competitors – if there are opportunities to get it from others, we'll take it," JB Hi-Fi chief executive Richard Murray said.

Source: Yahoo!7 Finance, 18 February 2016

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Adelaide & Bendigo Bank and investing by the book

by Questions of the Week

Question: I have a question for you around Adelaide & Bendigo Bank (BEN). Being Australia's fifth largest retail bank and without the need to raise additional capital (like the Big 4), this stock is significantly under-performing the broader financial index and its peer, the Bank of Queensland.

I am not sure if BEN is in your portfolio but my entry price during the second half of 2015 was $12. I watch your show and read your weekly articles and I know you are bullish on Australian banks and the index as a whole but should I be cutting some losses here or do you see it recover over $10?

Answer (by Peter Switzer): The brokers have a consensus target price of $9.94 on BEN. While the bank's recent result exceeded forecasts, they didn't like either the quality or lack of business momentum. Most brokers thought one-off factors boosted the result.

Personally, I prefer the major banks to the minor banks, and more so since the completion of their capital raisings. Hence, BEN, Bank of Queensland (BOQ) or Suncorp (SUN) are not in our portfolios.

Yes, I like the financials – but I prefer others such as CBA or Westpac, and if you believe NAB may get its act together, the latter. Will BEN get back to $10? Over time, probably. In the short to medium term, I think you will get better price appreciation from one of the major banks.

Question: In the philosophy of investment, the mantra appears that it is all about asset allocation, not investment selection. I am a devotee of that philosophy, but unsure in the implementation of it.

I seek to rebalance every three months. Given I hold a portfolio of 20 stocks, what do I sell? Do I cut my losses on those that have shown the greater losses? Do I take my profits on those that have shown the greatest profits?

Answer (by Paul Rickard): There are no doubt there are some really good books on this subject, and perhaps that is where you should start. I see it as an art rather than a science, so I don't think I can offer a prescriptive approach. Normally, you won't consider profits or losses in any rebalancing – how much you have paid for something won't have any impact on what it may be worth in the future.

Normally, the approach is something like this:

a) compare your actual asset class weighting with what you want it to be – and identify asset classes that you want to change;

b) With regard's to Australian equities, compare your asset weighting by sector with what you would ideally like to have in each sector. Do you have the biases you want? Identify those sectors where you want to increase or decrease exposure; and

c) Now look at the individual stocks within those sectors. Identify the stocks that you may wish to increase, or those that you want to decrease exposure. Take action.

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