

Investment Failure - Telstra, held from 2014 to 2016.

Telstra is Australia's leading telecommunications provider.

The assessment at the time was based around an attractive yield coupled with underlying trends in increasing data usage from mobile and IOT devices. Investment was made on the 01/04/2014 for \$5.04, 19/06/2014 for 5.24, and 08/10/2014 for \$5.35. The erroneous investment decision was recognised in 2016 and all stock was sold on 14/12/2016 for \$5 as shown in Chart One below.

The following insights were gained:

- A stock yield is easily threatened by a changing company value. In our current analysis, yield plays little relevance. In the early growth phase of companies we buy, all cash flow is directed towards growth not dividends. We look for strong business models with sound financials and fair or discounted valuations. We hold for the long-term and capture capital gains. If the business model continues to perform we will capture yield as it matures and begins to pay dividends.
- Growth not evident. Growth in revenue and cash flows did not exist, the company was saturated in its market and vulnerable to competition. We now demand strong growth in sales and operational cash flows, we also must be able to see strong pathways for future growth.
- Debt levels too high. The level of debt on Telstra's balance sheet in 2014 is well above our current tolerances.

- Return on invested income (ROIC) too low. Our screening process today demands a much higher ROIC than what was evident in Telstra in 2014.

Telstra may have shown an attractive yield in 2014 however a multitude of other red flags led to this investment declining in market value that was more substantial than the dividend. Insights gained from this investment have created a much stronger screening methodology today and stock representing these characteristics do not surface. Even if it were to cross our desk factors on first glance such as growth, ROIC, debt, and market saturation would quickly lead us to pass on this opportunity.



Chart One. Investment in Telstra on the 01/04/2014 for \$5.04, 19/06/2014 for 5.24, and 08/10/2014 for \$5.35. Sale 14/12/2016 for \$5.