



HOODSWEENEY

HOOD SWEENEY SECURITIES

Financial Planning
Investment Principles

join the journey

Hood Sweeney Securities ABN 40081 455 165, AFS License No. 220897.



You don't get rewarded for taking risk; you get rewarded for buying cheap assets.

Jeremy Grantham

A circular label with a dark grey background and an orange border, containing the text "GREED/BUY" in white. A thin black line connects the label to the top of a large orange U-shaped graphic that dominates the right side of the page.

GREED/
BUY



Rule No.1: Never lose money.
Rule No.2: Never forget rule No.1.

Warren Buffett



It's an investors job to intelligently bear risk for profit. Doing it well is what separates the best from the rest.

Howard Marks



Value investing is the discipline of buying shares at a significant discount from their current underlying values and holding them until more of their value is realised. The element of a bargain is the key to the process.

Seth Klarman



**REPEAT
UNTIL
BROKE**



Be fearful when others are greedy, and greedy when others are fearful.

Warren Buffett



The secret to investing is to figure out the value of something – and then pay a lot less.

Joel Greenblatt



The biggest mistakes investors make is to believe that what happened in the recent past is likely to persist...typically high past returns simply imply that an asset has become more expensive and is a poorer, not better investment.

Ray Dalio



Under valuations caused by neglect or prejudice may persist for an inconveniently long time and the same applies to inflated prices caused by over-enthusiasm or artificial stimulants.

Benjamin Graham

**FEAR/
SELL**



HOODSWEENEY

How we invest

For over 10 years Hood Sweeney Securities has been investing clients' money using a disciplined approach built on the foundations of capital preservation and absolute return.

Our bespoke portfolio construction considers each client's income and tax requirements and we ensure the client remains in full control over their investments while we focus on achieving their long-term goals and managing the risks along the way.

As we hold our own Australian Financial Service Licence (AFSL) it allows us autonomous decision-making around the investments we recommend to our clients. We are mindful that with such autonomy comes more responsibility when looking after someone else's wealth. We believe our approach to investing best honours the trust our clients place in us.

Investment approach

The Hood Sweeney Securities investment approach is made up of four pillars.

Value investing

We seek to buy shares in companies when we believe the share price to be significantly undervalued by the share market. The share market can overreact to both positive and negative news, resulting in share price movements that do not correspond to the long-term outlook and fundamental valuation of the company. We recognise that volatility exists, it is not inherently negative and in fact provides more opportunities to buy low and sell high. At its core, value investing is about not losing money. By purchasing a share at a low enough price an investor is somewhat protected on the downside but perfectly positioned to benefit from any upside.

Absolute return

We utilise an absolute return approach which aims to produce a positive return over time, regardless of the prevailing market conditions. Unlike traditional investing where investors accept the risk that share markets can fall dramatically from time to time, an absolute return strategy, by not being tied to a benchmark or index, aims to produce more consistent positive returns over a given time horizon. Investment returns can never be guaranteed, but by using a range of techniques not available to traditional investment portfolios, an absolute return strategy has the capability to generate smoother returns through market cycles.

Capital preservation

In line with our first two mandate pillars, we focus on preserving our clients' capital because at some point they do plan on spending the cash – whether that is soon or years from now. We look to buy shares at a significant discount giving us a margin of safety. When we can find no value investments we hold cash and patiently wait for investment opportunities. Sometimes markets will make waiting a protracted and frustrating exercise. During these periods, we assist our clients with staying disciplined and remind them that a cash float is the means to seize investment opportunities as quickly as possible.

Contrarian

Often, when there is optimism for a company the share market overreacts leading to an inflated valuation which in turn may lead to a fall in the share price should those high expectations not be met. Compelling investment opportunities are often found when we are going against the herd. Sometimes a great investment is found where there is widespread pessimism about a company for simple reasons such as the company being in an out of favour industry or when it is linked with temporary bad news and the share market overdramatises its response. With investing, rational consideration is what is required but it can be hard to maintain when losing the warm fuzzy feeling of doing what others are doing.

Investment Committee

To ensure the investments we recommend have met best practice due diligence requirements and align with our investment mandate we run an in-house Investment Committee. The Committee is made up of five key staff and meetings are chaired by the Head of Financial Planning. We access independent, expertise via an external consultant who is invited to onto the Committee. Our current external consultant has extensive experience as a fund manager and helps our Committee in undertaking a rigorous analysis of approved and proposed investments.

The main objective of our Investment Committee is to compile a well-researched, internally analysed, robust and diversified Approved Product List (APL). An APL is the list of products which can be recommended to clients.

The Investment Committee meets weekly to:

- Analyse and discuss the performance, company activities and related news for the shares and managed funds held within Hood Sweeney portfolios to ensure the managers and products still meet the original selection criteria
- Review any applications for the use of non-approved products (if a client engages us and holds non-APL products in their existing portfolio) and either approve or decline the request
- Discuss external research reports on new investment offerings to determine whether the offering is worth a detailed analysis and risk assessment for potential inclusion on the APL.

Our research sources

When assessing investments, the Investment Committee draws on a range of market leading external research providers both local and global.

We do not rely on one research source and we do not automatically accept the buy/sell/hold recommendation from research houses on any shares or funds.

We discuss the overall picture provided by these research sources and decide on key areas we would like further clarification on. Our investment champion, who is a Certified Financial Analyst CFA®, then does additional research and analysis based on the identified key areas.

The findings are then further discussed at a Committee meeting and the option is either discarded or the Committee agrees to approach the company or fund manager directly for further information and to establish an ongoing relationship.

Looking for value

When our Investment Committee is assessing a share for potential inclusion on our APL, the key criteria are whether the company:

- Has a great management team who own a material number of shares and have a long-term track record of performance and integrity
- Displays an empathy towards shareholder returns
- Is backed by quality assets
- Generates strong free cash flow which can be used for growth initiatives instead of using debt
- Holds a sustainable advantage within its industry
- Has an identifiable catalyst for realising value for investors i.e. a re-rate of the share price happens through something tangible occurring
- Has an attractive valuation with a margin of safety i.e. the buy price is well below the estimated intrinsic value
- Offers high dividends and has sustainable earnings to support that level of dividends.

When our Investment Committee is assessing a fund for potential inclusion on our APL, the key criteria are whether the fund manager:

- Can easily and comprehensively articulate its investment mandate and philosophy and it aligns with Hood Sweeney Securities' mandate
- Has a defensive vs growth assets mix and underlying assets which work as part of a Hood Sweeney Securities portfolio
- Is consistent around investment philosophy and its mandate i.e. the rationale around investment decisions over the long-term is in line with both
- Exhibits a well-defined investment process and the successful execution of that process day-to-day
- Doesn't materially deviate from underlying philosophy to achieve returns i.e. the level of risk is managed
- Can fully explain under or overperformance
- Employs an experienced investment team with skills appropriate to achieve the fund's mandate
- Has a strong management team who each have some of their own wealth tied up in the fund
- Maintains low staff turnover and reports any changes which do occur
- Has mitigated key person risk as much as possible
- Compares favourably to its peers and any relevant index.



HOODSWEENEY

Now, this is where your journey starts.

To join the journey with Hood Sweeney, or to find out more about what we can do for you, please contact us.

ADELAIDE

11-16 South Terrace Adelaide SA 5000
PO Box 10516 Adelaide BC SA 5000

T 1300 764 200 (Australia-wide)
T +61 8 8203 8400 (international)
F (08) 8232 1968
info@hoodsweeney.com.au
www.hoodsweeney.com.au

WHYALLA

Suite 13, Level 1 City Plaza Building
15-15a Darling Terrace Whyalla SA 5600

T 1300 764 200
F (08) 8645 1059

KADINA

6a Graves Street Kadina SA 5554

Office hours are determined
by pre-arranged appointment.

T 1300 764 200
F (08) 8232 1968

DISCLAIMER:

Information contained in this article is of a general nature only. It does not constitute financial or taxation advice. The information does not take into account your personal situation. We recommend that you obtain investment and taxation advice specific to your objectives, financial situation and specific needs before making any investment decisions or acting on any of the information contained in this article. The information in this document has been derived from sources we believed to be reliable and accurate. Subject to law, neither Hood Sweeney Securities ABN 40081 455 165, AFS License No. 220897, nor their directors, employees, agents or representatives gives any representation or warranty as to the reliability, accuracy or completeness of the information; or accepts any responsibility for any person acting, or refraining from acting, on the basis of the information contained in this article.

