

## Praise for *Shareplicity*

‘A clean and crisp introduction to our share market, which manages to capture both traditional principles of analysis along with the key themes in front of Australian investors today. Ecuyer is as good on BHP as she is on CSL and as up to date on Wesfarmers as on the “buy now pay later” brigade: a well written and attractively structured guidebook on shares for the Australian investor.’

**James Kirby**, Wealth Editor, *The Australian*

‘At a time when the investment world seems to be suffering from information overload, Danielle Ecuyer has sorted out what is important and necessary and has put it in this book. It covers all aspects of investing in the stock market, from how to buy a share to how to construct your own winning portfolio. In particular, as a former stock market analyst, and now a full-time investor, she is able to present very useful guidance on selecting shares with long-term profit potential. This excellent book is highly recommended for both new and experienced investors.’

**Martin Roth**, author of the bestselling annual publication  
*Top Stocks*

‘When very new investors approach me for guidance, I have tended to send them to a smattering of online resources. This in itself is a challenge as the pieces of the puzzle can be disjointed. Not anymore. *Shareplicity* is now the single resource to get every new and curious investor immediately on target. It provides an effective roadmap to not only understand broad share market concepts, but also provides a foundation to build a sensible portfolio. I know five people who need *Shareplicity* right now.’

**Nick Radge**, Head of Trading and Research, [thechartist.com.au](http://thechartist.com.au)

‘With its easy-to-read format, *Shareplicity* takes its readers through the basics, ensuring they understand how the market actually works, giving helpful summaries at the end of each chapter. It then guides them through the steps required to develop a fundamentally sound portfolio, acknowledging that it is not only the numbers that drive the markets, but equally important, market sentiment. Based on Danielle’s years of practical experience, this well written book will appeal to both new and experienced investors of all ages.’

**Janene Murdoch**, Owner and Manager, specialist investment bookstore [Educatedinvestor.com.au](http://Educatedinvestor.com.au)

**This is an excerpt from  
*Shareplicity* by Danielle  
Ecuyer. You can purchase  
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# Shareplicity

A simple approach to  
share investing

**DANIELLE ECUYER**



## Author note

Just as this book was going to press in March 2020, the world entered a period of lockdown to stop the spread of COVID-19. The Australian share market crashed from its mid-February peak and fell some 37 per cent at a speed and ferocity not seen since the October 1987 crash. Launching a book on share investing seemed fanciful at that time, so we ‘stopped the presses’.

Six weeks on, the world is still turning, and we are all trying to establish some modicum of normality. Share markets have responded with vigour and enthusiasm to the global efforts by Central Banks to shore up our financial systems and concerted global efforts to develop effective treatments and a vaccine for the coronavirus. At the end of April, the Australian market is up some 18 per cent from the March 23rd lows.

There’s no denying these are unprecedented times for share investors. However, the themes discussed in *Shareplicity* still hold true and have proudly passed the COVID-19 test. Sure, in most cases, share prices are considerably lower now than when I finished the final numerical edits on February 14th, 2020; meaning for new or existing investors this is an excellent time to brush up on share market basics, do some research into how to buy shares and construct a share portfolio to grow your wealth for the future.

As you’ll hear me say a few times throughout the book, good quality shares with strong balance sheets and cash flow will stand the test of time and see their way through the 2020 recession. Please bear in mind company earnings and dividend forecasts and share price targets shown in *Shareplicity* are pre the coronavirus health shock and the recession Australia and the world are now experiencing. They will have been adjusted and continue to

be so. What is more important than the forecasts, as they are predictions and subject to change regularly, are the themes of the book.

If I were to pick the three companies discussed in *Shareplicity* that have hit more of a speed hump than most, they would be Sydney Airport, Transurban and Macquarie. But all three were, and will remain, resilient companies with good access to capital if needed. As quality businesses, they will manage high risk and extreme uncertainty and find pathways for future growth.

If COVID-19 has taught me one thing, it is not to become complacent when share investing. Even in the bad times, with the huge liquidity drawdowns of March 2020, the first shares to bounce were the bulk of those highlighted in *Shareplicity*.

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# 1

## ***Ford v Ferrari:* what makes or breaks a company**

What does the Hollywood movie *Ford v Ferrari* have to do with share investing? Everything and nothing!

It's 1966, and the scene is the world's oldest and most prestigious endurance racing car event, the 24-hour Le Mans, in France. British racing car driver Ken Miles is leading in the final lap to secure the first ever victory for America's Ford Motor Company.

What happens next shocks a nation and the world's racing community. Even though Ken Miles is in line for the world's triple crown for endurance races that year, Ford's head of public relations tells Miles to slow down and allow the second- and third-placed Ford cars to cross the line with him.

This secures a triple-place win for the Ford Motor Company. It's a global photo opportunity for the media hungry company and a triple slapdown to Enzo Ferrari, whose two Ferraris withdrew at the halfway mark of the race.

Ironically, the photo finish cost Ken Miles the win, as another Ford car driven by New Zealander Bruce McLaren, who finished third, won on a technicality. Le Mans is renowned for its unusual start: drivers stand opposite their cars and sprint to their vehicles at the line-up. The winner is measured not on time but on distance travelled over the 24 hours. McLaren's car had been 8 metres behind Miles's so, in slowing down to allow for the other cars, Miles lost the winner's trophy by a margin of 8 metres. It was a cruel outcome for Miles for what amounted to a marketing stunt.

### **Company culture: behind the scenes**

This action said so much about the culture and ethos of the Ford Motor Company and what mattered to it. There was certainly no room for individual stars; the triple-place win was for the greater good of the company and because the CEO wanted to bask in his victory over his Italian nemesis.

For the first time in history, Henry Ford II, grandson and name sake of one of the most famous men in manufacturing history, claimed supremacy in the world of endurance car racing. This was a win like no other. This was a personal battle of the egos between the European king of prestige cars, Enzo Ferrari, and his enemy in spirit from the other side of the Atlantic, Henry Ford II.

Three years earlier, in an attempt to revive the flagging image and sales of the Ford Motor Company amid increased competition and pressures from General Motors, Ford II made a failed attempt to buy the illustrious but bankrupt Ferrari group. A strategic takeover would have bolstered the Ford image, transferred the Ford name and brand across the pond and given them a higher profile in the prestigious world of car racing.

The attempt not only battered the ego of Ford's CEO, with Enzo Ferrari accepting a higher offer from Gianni Agnelli's Fiat group, it also ignited a burning desire to take on Enzo at his own game and beat him on the racetrack at Le Mans, the toughest endurance car race in the world.

Ferrari, the most successful motor racing company, was about quality, small scale and premium pricing. Ford, in contrast, was a car of the masses, being squeezed by competitors. Henry Ford II wanted what he didn't have: prestige, racing power and respect on the world stage. His dream, as history shows, came true and the Ford GT40 went on to win a total of four successive Le Mans races.

To achieve Ford II's goal, the Ford Motor Company looked outside of its traditional management structure and enlisted the help of former Le Mans winner Carroll Shelby, played by Matt Damon in the movie *Ford v Ferrari*. He, in turn, recruited his friend Ken Miles, brilliantly brought to life by actor Christian Bale.

Against the odds, these two men rebuilt Ford's failing GT40 racing car prototype using unconventional methods and all the mechanical engineering skills the team could muster. The journey was not without conflict and disagreement, however. Ford's management style and the behaviour of his minions was at odds with the entrepreneurial and maverick style of the two racing car drivers. In one scene in the movie, a folder summarising the progress of the GT40 Ford car passed through as many as four different pairs of hands in a single room before it was finally passed to the big man himself, Henry Ford II. This was clearly a cumbersome and heavy management structure.

The company set up internal teams to compete against each other for the Le Mans victory. Shelby and Miles were trying to snatch the five-year winning streak from the victorious Ferrari.

The 24-hour race is brutal – travelling at speeds up to 218 miles per hour in those conditions in 1966 stretched both human and car to the limit.

In the movie, Matt Damon’s character, Shelby, explains to Mr Ford that a winning racing car cannot be achieved through paper pushing; it’s achieved through track testing and retesting for hours on end by a racing car genius, like Miles.

*Ford v Ferrari* defines what makes or breaks a company. As the true story unfolds, the scenes illustrate the differences between the politics of the big corporate suits and the brave, hardworking maverick racing car driver ‘Happy’ Ken Miles, who lost due to politics in the end. The movie shows the manufacturing flaws of Ford’s cars versus the tender loving care of the construction of a Ferrari. It depicts the culture wars between the old and new worlds of Italy and the brash, fast-producing ideology of the USA. Most importantly, it shows how ego and culture define a company.

Take a look at *Ford v Ferrari* if you haven’t seen it; it offers a window into the many aspects of what drives a company behind the scenes. Corporate culture stems from the top and much of what makes a company tick comes from the chief executive or founder. I talk more about company culture in Chapter 7 and the appendix.

## **Shares are not just about the numbers**

Companies are often defined by investors as a set of numbers or a narrative (a story), and the share or stock (same thing) that investors buy is too often melted down to just a price.

A share is literally a percentage an investor owns of a company, so it’s more than just the price or number it trades for on a stock exchange. A company, as the film portrays, is about people,

culture, ego, fame and creating fortunes. Some companies are considerably better than others at creating fortunes for their management, employees and shareholders. Some companies have great cultures and offer excellent work environments. Some are noble stewards in their community as well as wealth creators. Companies are so much more than just a price as defined by a share. Not all companies are the same, even if the numbers and ratios that compare them are similar.

If you're a new investor or seeking to become a better investor, you're like the characters of Shelby and Miles. You have a task at hand to create wealth, but you're starting as an underdog. You're not sure what works, or if the advice you're receiving is failing you. You might even be subjected to criticism and suffer self-doubt.

Thankfully your road to success doesn't require driving on and off for 24 hours in extreme conditions at high speed! Like the racing drivers, however, you want to survive the drive and finish with a victory. Even if you can't secure victory, you want to ensure that the trip isn't too painful and that you learn from the experience.

## **Why perception matters**

Not all people see a movie the same way. I was surprised to hear a film critic discussing what sounded like a completely different movie to *Ford v Ferrari*. How could his reality be so far removed from mine? To him, the movie's premise of Ford as the underdog seemed ridiculous. It was a Hollywood fairy tale that showed the might of America winning against the odds. How could a giant of an American company possibly be inferior to a small operator like Ferrari?

However, history tells us that Ford *was* the underdog and Ferrari was the king of racing cars. Ferrari's prestigious and beautifully handmade vehicles were and still are collectors' pieces. The movie

was not a fantasy. Nonetheless, everyone has their own opinions and when it comes to share investing, perception matters.

Perception matters because you need to make decisions based on facts and research, not your preconceived ideas about companies and shares. Investors need to examine their own perceptions and learn to challenge them so that they make good financial decisions based on data not emotions. The trick lies in realising your own personal foibles and working around bias to obtain a real and truthful understanding of a narrative and, in turn, a company or market. I show you how to stick with the facts and keep a lid on greed and fear in Chapter 6.

## **Taking the *Shareplicity* journey**

Like the story of *Ford v Ferrari*, share investing is a journey. The best way to approach this journey is to make it fun, achievable and sustainable so you can reach the goals you set. *Shareplicity* is the book you need to guide you on your trip! It takes a logical approach that will help you to learn about and appreciate the factors and issues that matter most.

*Shareplicity* simplifies the complex with easy-to-understand examples and helpful analogies, and challenges the views held by existing share investors.

Starting with the basics, I take you through the important aspects of shares and how to take control of your investments to create wealth and income, including how to avoid the loss makers and build a portfolio to meet your needs (see Chapters 4, 5, 6 and 9).

Too often the jargon around shares makes them seem complicated, so to get you over this hurdle I explain the language and terminology in Chapter 2, and have also included a glossary at the end of the book. I also show you how to spot the traps of

share investing and how to invest at any life stage. You're never too young or too old to learn how to be a better investor and develop real strategies to create wealth, while managing the risks so you can sleep at night.

At my son's school football games I often chuckled to myself as parents, usually dads, chatted excitedly about the latest hot investment tips from their mate – a gold explorer, a biotech start-up that was going to cure cancer or the next big fintech (financial technology company) like Afterpay or Zip. For many, share investing tips come from a friend, a broker or another 'expert'. The hundreds of columns of ink devoted to business, investing, shares and markets can be overwhelming. I call it 'fast news'. Everything is fast now; technology and the internet have opened a Pandora's box of information overload and confusion. Yet information doesn't equal teaching, understanding, good execution, experience and embedding robust investment processes.

In *Shareplicity*, I show you what you need to look for in a company. Finding the right information is a process not of looking for a needle in a haystack but more like viewing a piece of art from a distance. Perspective and clarity can often be better achieved when you don't look for the minutiae. Monet's *Water Lily* masterpieces are at their best from a distance. The colour and movement amass to create the special forms as we step further back from the canvas; the big picture. In Chapter 3 I explain ways to understand the big picture.

When Ford won the Le Mans it was 1966 – it was a time of extraordinary change. We too are living in an era of great change and new risks for investors, with disruption coming from technology, populism, global pandemics and climate change. Chapter 6 aims to make you aware of 21st century trends in share investing so you can make educated decisions.

Chapter 8 gives you all you need to know on indirect investing, including new products like exchange traded funds (ETFs) and how to manage costs and fees when you invest with a managed fund.

## Sharing my experience

In the following chapters I bring together my four decades of investment experience, a successful career as an institutional stockbroker advising some of the world's largest fund management clients, and my own experience of making a living from shares.

During my career, I transitioned from being a professional stockbroker to managing share investments, which meant I was now looking after *my* savings, not sprouting ideas for large fund managers. Any skills I mastered during my investment career had to be reworked, expanded on and adjusted. Professional fund managers have predetermined mandates, like beating a specific index or percentage amount each year, but private investing is about keeping and growing your savings to meet short- or long-term financial needs. The two are like chalk and cheese. My journey in share investing has been a path of ongoing learning.

Whether you invest directly (buy and sell your own shares) or indirectly (through passive or managed funds), just like the Ford Motor Company in the story of *Ford v Ferrari* you want to aspire to victory and construct the right vehicle so you can go the distance, which is as important as arriving at the finish line.

*Shareplicity's* simple approach to share investing will give you the ability to unravel the narratives around companies and shares, and improve your knowledge and performance as you cruise down your own share investment road.