Skaffold®
INVESTMENT. SIMPLIFIED.

Five reasons to sell shares

In a rising market the thought of selling shares may seem a little odd. “Why would I sell when the value of my portfolio increases every day?” we hear you ask.

It’s easy to get caught up in the momentum of impressive performance, meanwhile ignoring the poor and worsening economics of the businesses in your portfolio.

Did you know that more than 65% of companies listed on the ASX fail to make a profit, and just over 25% are forecast to increase in value over the next couple of years.

Remember, share prices cannot outperform business performance indefinitely. And stock markets do not continue to rise, day after day. After a while, something will have to give.

That’s why understanding when you should sell shares in your portfolio is critical. Of course selling early may cause you to miss out on a little extra profit, but conversely not losing money by selling poor quality businesses will help guarantee the future of your portfolio.

At Skaffold we approach selling as an opportunity, an opportunity to realise capital growth, to avoid loss or to invest in something better.

When then should you sell? We advocate five reasons:

1. Business performance declines
2. Business value is in decline
3. Share price rises well above value
4. Future growth is less promising
5. A superior investment is found

The data contained in this report is accurate as at close of trade on Friday 26 April 2013.

1. Business performance is declining

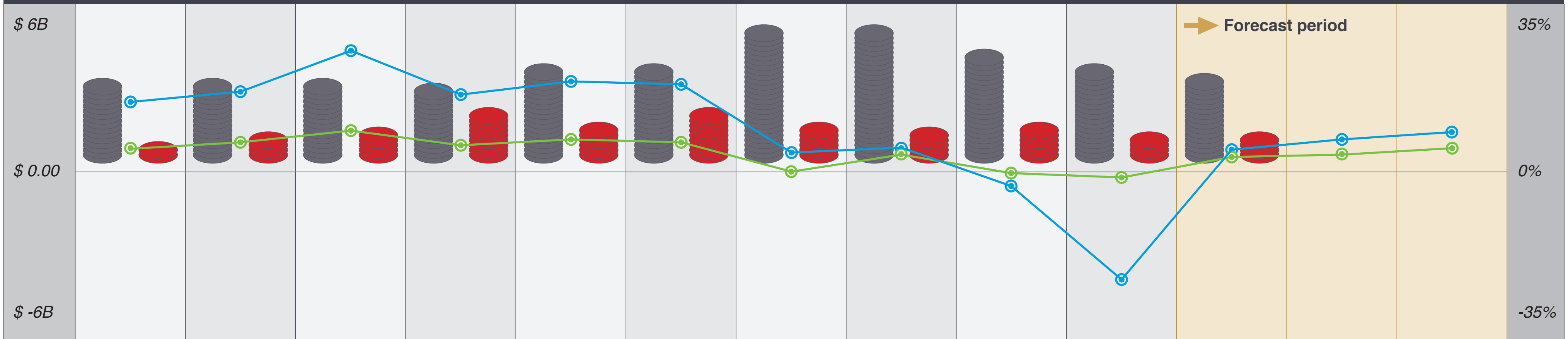
Share prices don't move in isolation to the underlying performance of a business. If a company is unable to increase its earnings, requires increasing amounts of debt and new equity capital to fund its ongoing business activities, and pays dividends it can't afford, you can guarantee business performance will be less than impressive, and progressively declining.

At Skaffold we use Return on Equity to quantify the performance of every ASX-listed business (plus another 2,000 of the world's largest listed companies.). Return on equity looks at how many dollars were required to produce the company's profit.In the case of business performance, less is definitely more. A business that has $100 million of equity capital and produces a profit of $20m million is far more valuable that one that requires $500 million of equity capital to produce the same profit.

As an example, since 2003 BlueScope Steel's (BSL) earnings per share have fallen from $0.39 to -$1.28. Profits have declined from almost $460 to million to a loss of $569.6 million, as at 30 June 2012, and return on equity has fallen from 15% to around 1%. Over the same period BSL's share price has fallen from around $14.50 to just under $5.00 (it peaked at more than $50 in May 2007).

Whilst manufacturing businesses tied to commodities will always be predisposed to changes in supply and demand, holding onto companies whose performance is in decline, will ultimately put a dent in your portfolio.

Skaffold presents BlueScope Steel's (BSL) history of equity, debt, profits and business performance



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Equity	$3,052.30	$3,140.30	$3,217.20	$3,034.00	$3,797.70	$3,867.10	$5,579.50	$5,661.30	$4,308.80	$3,679.30	$3,717.70	$3,885.47	$4,024.25
Debt	$167.900	$592.700	$875.900	$1,797.30	$1,291.80	$1,765.80	$1,132.60	$1,000.70	$1,244.90	$598.400	$692.300		
NPAT	$458.550	$576.111	$1,043.37	$482.426	$694.531	$761.439	$-13.570	$105.415	$-457.545	$-569.610	$34.256	$174.781	$282.415
ROE	14.9%	17.9%	31.3%	15.8%	20.3%	20.6%	-0.4%	1.9%	-9.1%	-29.8%	0.9%	4.6%	7.2%

Skaffold®
INVESTMENT.SIMPLIFIED.

2. Intrinsic value is declining

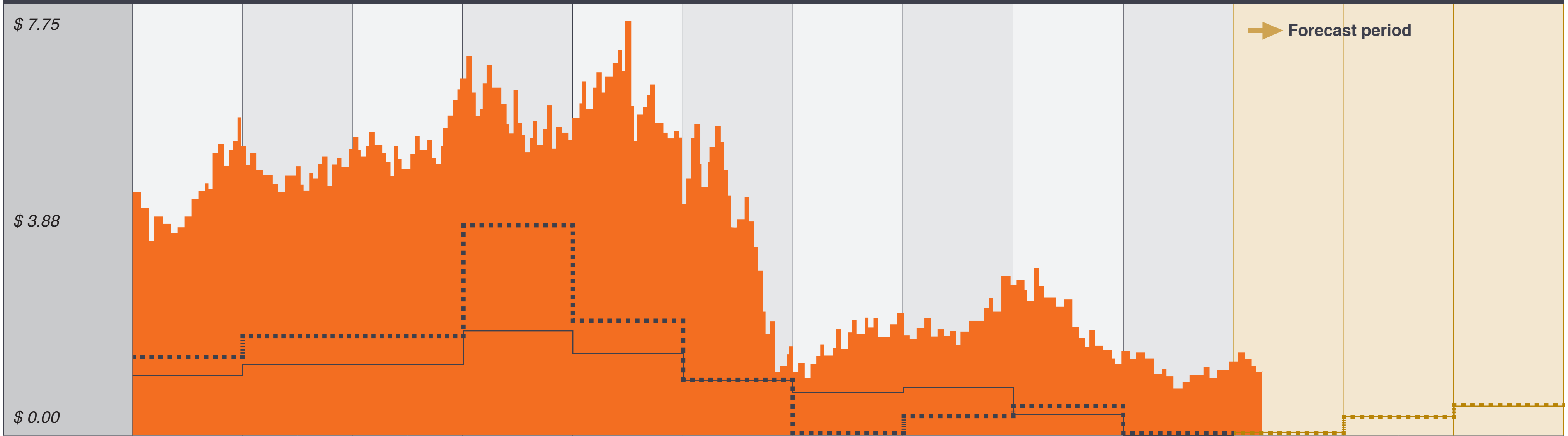
The intrinsic value of a business is closely tied to its performance. When a company reports declining profits and profitability, you can be fairly certain its intrinsic value will also be declining.

In 2006 Skaffold estimated the intrinsic value of Alumina (AWC) to be around $3.60. At that time its shares were trading at more than $6.00. Fast-forward to December 2012 and AWC reported negative earnings per share of two cents. Over the same period return on equity has fallen from more than 30% to -2%.

Profits have also declined and debt as a percentage of AWC's equity has risen. In 2008 AWC spent $800 million more than it earned. The following year dividends were suspended.

In the long run, share prices tend to follow value. Since 2006 AWC's intrinsic value has fallen from more than $3.60 to $0.00. From a high of $7.16 in 2007, AWCs shares are now trading around $1.00.

Skaffold Line chart of Alumina's (AWC) intrinsic value and share price



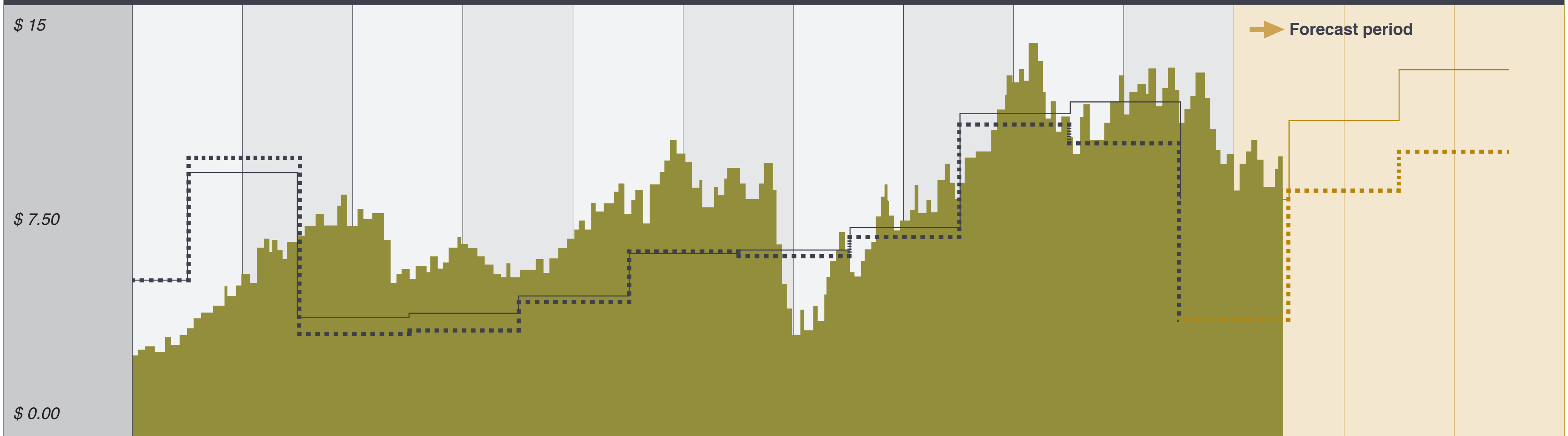
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Share price	$5.35	$4.83	$6.04	$5.16	$5.18	$1.20	$0.84	$2.48	$1.12	$0.90			
Value - Actual	$1.30	$1.75	$1.71	$3.61	$1.97	$0.83	$0.00	$0.09	$0.31	$0.00	$0.00	$0.11	$0.30
Value - Average	$0.89	$1.04	$1.05	$1.80	$1.30	$0.82	$0.30	$0.37	$0.24	$0.00	$0.05	$0.13	$0.22

3. Share price rises well above value

In the long run share prices tend to gravitate towards the intrinsic value of a business. In the case of Fleetwood, a WA-based manufacturer of Coromal and Windsor caravans and manufactured accommodation, shareholders have enjoyed a few periods of rising share prices. Unfortunately each period has been followed by a decline. Between September 2008 and the end of December that year, FWD's share price fell from almost $10.00 to around $3.30. This presented an opportunity to acquire shares in the business, which was rated A1 at the time, at a 50% discount to Skaffold's intrinsic value estimate of close to $6.50. By February 2011 FWD's share price had risen to more than $14.00, almost 30% higher than Skaffold's intrinsic value estimate of $11.00. If you'd sold your shares in 2011 you could have made a profit of more than 300%. Today your profit would be closer to 200%. Sure that's a great return, but it's not as impressive as 300%!

Don't rely on hope, or the presence of a rising market, that the prices of your shares will continue to rise. When share prices rise well above value, it's time to sell. Holding on to avoid paying tax is not rational. We pay tax when we make a profit. In the case of FWD, holding on to avoid tax would have resulted in a much lower profit.

Skaffold Line chart of Fleetwood's (FWD) intrinsic value and share price



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Share price	$3.64	$6.83	$5.55	$5.89	$7.95	$9.05	$5.90	$9.19	$11.33	$11.74			
Value - Actual	$5.54	$9.86	$3.67	$3.81	$4.80	$6.54	$6.43	$7.05	$11.01	$10.35	$3.95	$7.35	$8.43
Value - Average	$5.84	$8.58	$4.41	$4.48	$5.09	$6.30	$6.38	$7.03	$10.42	$10.73	$7.06	$9.87	$10.69

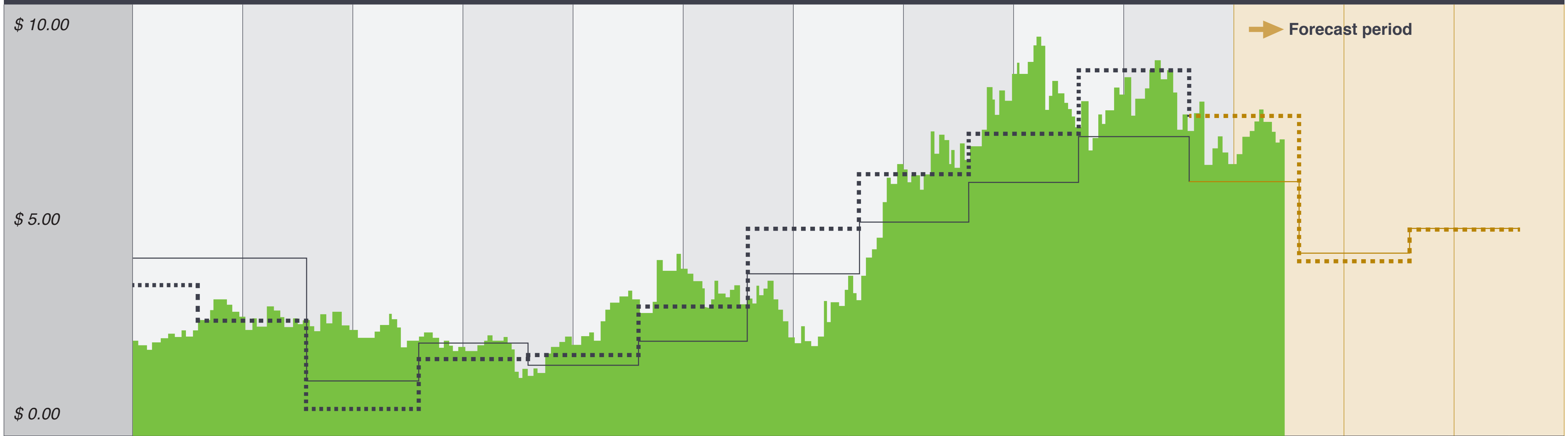
Skaffold®
INVESTMENT.SIMPLIFIED.

4. Future growth is less promising

In 2006 OrotonGroup (ORL) appointed a new CEO, Sally Macdonald, and in the following five years every measure of ORL's business performance rose. Earnings per share moved from $0.19 to more than $0.60, dividends from $0.05 to $0.50, debt fell significantly, profits increased more than three fold and return on equity almost tripled, rising from from 30% to over 85%. The share price rose from around $1.30 in 2006 to a high of $9.46 on 17 February 2011.

In August 2012 ORL announced the end of its agreement to distribute Ralph Lauren merchandise in Australia. Ralph Lauren had accounted for around 45% of ORL's group sales, and more than 30% of net profits. Over the next few years Skaffold estimates the intrinsic value of Oroton could fall more than 15% per annum. When the future does not look as promising as it once did, it may be time to sell.

Skaffold Line chart of Oroton Group's (ORL) intrinsic value and share price



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Share price	$2.27	$2.57	$2.05	$1.29	$2.92	$3.12	$3.54	$6.69	$7.33	$7.59			
Value - Actual	$3.27	$2.24	$0.24	$1.57	$1.55	$2.80	$4.73	$6.13	$7.11	$8.68	$7.55	$4.52	$5.15
Value - Average	$4.15	$4.16	$1.48	$2.39	$1.89	$2.35	$3.83	$5.00	$5.88	$6.90	$6.03	$4.75	$5.22

5. A superior investment is found

As an investor, your goal should be to fill your portfolio with companies whose business model is easy to understand, whose earnings are rising, debt is minimal, profitability is impressive and cash flow is positive. CSL, Flight Centre (FLT), TPG Telecom (TPN) and Domino's Pizza (DMP) are a few companies that make the grade. However, with their share prices rising on average more than 10% this year alone, the opportunity to pick up shares in these businesses for a bargain price is not currently available.

If a superior investment isn't available, don't be afraid to put keep your money in the safety of cash. Not losing money is just as important as making a profit.

Serious fun: Sophisticated global stock research as easy as child's play

Whether you are a private investor with a self-managed super fund looking for a way to uncover hidden gems and avoid possible landmines, or a new investor seeking an independent view of your advisor's advice, Skaffold will prove easy to use, highly engaging and addictive.

Skaffold makes it easy to pick the best value stocks from around the world in a blink of an eye. You'll be amazed by the level of analytical scrutiny, presented in an easy to use interface.

At a glance you can instantly see if a company's earnings have been rising and if dividends are being paid. What about debt? Skaffold's visual interpretation of a company's equity, debt and business performance makes it really easy to spot profitable companies and avoid those at risk of collapse. And the patent-pending visual evaluation of a company's cash flow means ploughing through cash flow statements will be a thing of the past.

The Skaffold Score, which translates a company's fundamentals and business performance, combined with a powerful filter and sorting feature, makes finding top quality businesses and avoiding potential disasters child's play.

Up to three years of forecasts, automatically sourced from hundreds of top-tier financial institutions, are run through 730 calculations every night, automatically and autonomously. Skaffold's intrinsic value estimates ensure you have an independent and unbiased view of a company's historical fundamentals and future growth prospects and value.

The Skaffold Verdict, a quick visual summary of a company's historical quality and business performance, and historical and future growth prospects, instantly tells you if a company is worth further investigation.

Skaffold can help guide you through the stock market maze by returning you to the driver's seat. The at-a-glance interpretations simplify the serious business of investing by providing a framework to help you identify the very best stocks - growth, income, blue chip or defensive - for your portfolio.

Skaffold offers one service for all members, making it easier for you to invest, save time and stay in control. It's really simple.

Skaffold ASX covers all ASX-listed businesses. Skaffold Global adds up to 2,000 global stocks listed on exchanges across North America, Asia and Europe. A monthly payment option is available.

All annual memberships are covered by Skaffold's 30-day money back guarantee and include unlimited phone and email support, regular webinars, a comprehensive Knowledge Base and training videos, and exclusive member-only blog content. Find out more at Skaffold.com.

Skaffold®
INVESTMENT.SIMPLIFIED.

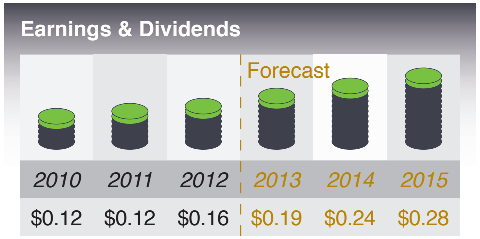
About Skaffold

Serious fun.

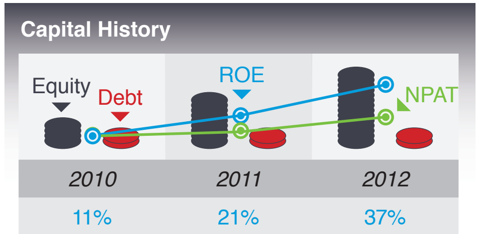
www.skaffold.com team@skaffold.com 1300 SKAFFOLD

Sophisticated global stock research, as easy as child's play.

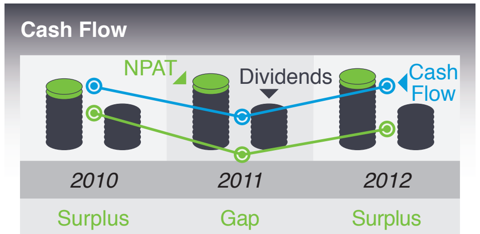
Skaffold makes it easy to pick the best value stocks from around the world in a blink of an eye. You'll be amazed by the level of analytical scrutiny presented in an easy to use interface, allowing you to evaluate thousands of stocks and identify investment opportunities in an instant.



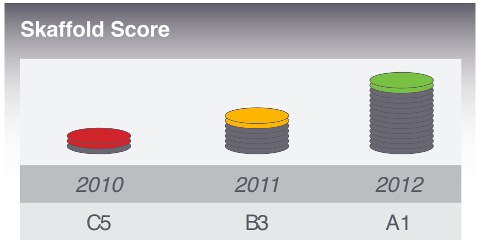
View up to ten years of historic Earnings and Dividends Per Share and where available, three years of forecasts. Instantly see if a company's earnings and dividends have been rising, and if growth is forecast over the next few years.



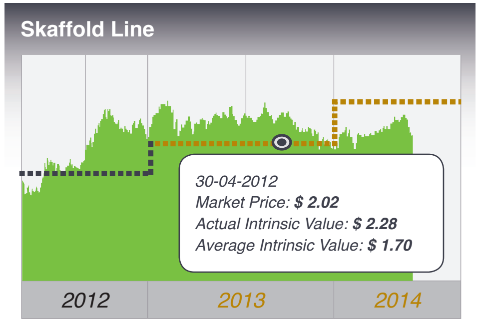
Capital History displays a company's relationship with its owners and lenders to help you understand its history of equity, debt and performance. Are profits rising? Are you comfortable with the level of debt? What about return on equity? A data table provides even more granular information.



Skaffold's Funding Surplus / (Gap), the green line, reveals how the cash generated has been utilised and whether the company has required external funding to finance its activities. Skaffold makes it easy to evaluate these vital aspects of a company's performance.



The Skaffold Score rates the quality and performance of every company, including consistency of earnings, debt levels and the quality of cash flow, from A1 to C5. Its easy to instantly see if a company meets your criteria and is worth further investigation.



A key component in evaluating a company and deciding when to purchase it is to estimate its intrinsic value. Every Skaffold Line chart, for every listed company, displays up to three years of future valuations and ten years of historical valuations so you can identify historically good-performing companies forecast to offer future growth.

PURCHASE

Join online at www.skaffold.com

Call the team on 1300 SKAFFOLD

Send your cheque to GPO Box 2314 Sydney NSW 2001.

Data accurate as at 26 April 2013.