GAVIN ROSS & CO PTY LTD

PORTFOLIO MANAGEMENT

DECEMBER 2020

"I think stocks are ridiculously cheap if you believe interest rates will remain at their low levels."

Warren Buffett

A portfolio of Australian stocks yields a dividend income return of 7.5%. Property investment in a home or apartment yields a net rental income of around 2.0%. A 10-year Australian government bond yields 1.0%.

"Stocks are ridiculously cheap" when compared to property and bond investments. The question then becomes, will stock prices rise to better equate their returns to property and bond investments?

Time will tell, however it's a nice position to be in owning a prime portfolio of high yielding Warren Buffett "value" stocks.

Freehill Mining (FHS)

Price $0.07

Freehill is making exciting progress proving- up its magnetite iron ore prospect in Chile, and now a large potential copper structure as well .

The company has not only announced a 67 million ton magnetite iron ore resource, but chemical testing confirms that the ore can produce a 71% Fe high quality, low impurity pellet feed relatively simply. These results are fabulous. Australian iron ore by comparison is around 60%-62% grade.

The mineral resource estimate is based on only 2 of the 7 structures to be drilled. There's still massive upside to the potential size of the magnetite resource.

Freehill has now also announced that it has identified a huge potential copper structure in its recently acquired adjoining El Dorado freehold property. The structure spans one-kilometre by 500-metres and has a mineralised halo twice that size. The structure is only one of 3 potential targets. Channel sampling has returned very high grades of up to 2.5% copper and 1.32 g/t gold. An extensive drilling program is in the final stage of planning.

Freehill says it "*...could not be more excited, and has every confidence.*"

Harvey Norman (HVN)

Price $4.68, Yield 9.1%

Harvey Norman's profit before tax was up 160% in the first 4 months of its current financial year, and it's likely the company will pay a special enhanced dividend for the half year.

HVN is in a strong financial position with zero debt, a high dividend yield, tremendous management, unique selling franchise, underpinned by a company owned property portfolio valued at $2.42 per share.

Fortescue (FMG)

Price $18.33, Yield 10.9%

Fortescue is having another tremendous year with profits boosted by an abnormally high iron ore price, caused by strong Chinese demand and continuing Brazilian iron ore supply disruption.

FMG is advancing its hydrogen strategy with Chairman Andrew Forrest outlining ambitious plans at the AGM to eventually produce 235 gigawatts of renewable energy, or 5 times the current capacity of Australia's national energy market. Dr Forrest emphasized that projects would be funded by debt tied to individual projects, and would not risk FMG's balance sheet.

FMG is positioning itself, partnering with CSIRO breakthrough technology, to be at the forefront of the coming hydrogen energy revolution. Hydrogen produced by solar power is the "ultimate green fuel" , and the Western Australia Pilbara region where FMG has its mines, is the best place on earth to produce solar power.

Our total return from FMG, capital and dividends, has been 324% since buying into the stock three and a half years ago.

Unibail-Rodamco-Westfield (URW)

Price $4.94, Yield 8.9%

We flagged URW as "exceptional value" at $3.19 in our last Client Letter. The price has currently risen to $4.94, however in 2019 the stock was trading at over $12 and we expect it to return to these levels.

URW is based in Paris and is the premier owner of flagship destination shopping centres in Europe, UK and the USA. Fear of Covid a now scuttled new stock issue depressed the stock price.

Bank Dividend Increase?

The bank regulator ARPA's guidance to banks during the pandemic, was to conserve capital and not pay more than half their profits in dividends. ARPA is now hinting it is reviewing its guidance going forward so higher dividends may return sooner.

Performance

In the latest year to June 30, 2020 our portfolios are up 6.3%, compared to a loss of (7.2)% for the market. Over the past 10 years our portfolios are up 206%, compared to 112% for the market. These returns are after our portfolio management fees, but before dividend franking credit tax refunds, so actual returns are even higher.