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Share prices suffered in 2018, but dividends shine

While Australian share prices fell over the past year¹, many investors are unaware that that total dividends increased almost 8% in dollar terms from calendar 2017, according to Plato Investment Management.

“While share prices were soft in 2018, the Plato Australian Shares Income Fund had a record year for income distributions,” said Dr Don Hamson, Managing Director of Plato Investment Management.

“The income-focussed fund ended the year with gross income distributions - cash plus franking credits after fees - in excess of 12%.

“This was considerably higher than its pre-2018 average of 9% gross income distributions.”

Dr Hamson attributed the rise in distributions to strong overall dividend increases for the market as a whole, together with large share buybacks by Rio Tinto and BHP.

“The almost 8% increase in market-wide dividends was particularly encouraging given the traditional income stocks – the big four banks and Telstra – broadly maintained, or in Telstra’s case cut, their dividends in 2018,” he said.

“We think this financial year 2018/19 will see an even higher record yield of almost 14% for our fund, given BHP is soon to pay a large special dividend and the potential for further buy-backs from the likes of Woolworths.”

High payouts of fully franked income are also timely given the potential threat of the ALP’s proposed changes to franking credit refunds.

“To that end, we would encourage companies with excess franking account balances to consider increasing franked dividends or undertaking tax-effective buy-backs before the end of this financial year,” Dr Hamson said

He cautioned investors to monitor the ALP franking credit tax refund issue, but noted that the ALP needs to both win the election and get legislation through Senate, “with the latter likely to prove much more difficult”. Plato has provided a submission to the House Economics Committee inquiry into franking.

Plato also urges dividend income investors, including retirees and self-managed super funds, to look for sources of income beyond Telstra and the big four banks.

“Investors should be wary of this concentration as there are many other good companies that offer both consistent dividend income and better potential for capital growth in Australia and globally,” Dr Hamson said.

Dividends have risen strongly at the global level, as well as in Australia. Plato research finds that global dividends paid by developed market companies rose 12% in 2018 compared to

¹ The Australian share market stumbled in the fourth quarter of 2018, with the S&P/ASX 200 falling 9% in price terms, finishing in the red to the tune of -3% in total return terms for calendar 2018.

2017 in \$A terms, with the monthly distributing Plato Global Shares Income Fund paying 21% more income per unit in 2018 versus 2017.

“2018 has clearly been a very strong year for equity income generation – and this will continue into this year.”

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About Plato Investment Management Limited

Plato Investment Management Limited (Plato) (ABN 77 120 730 136) is an investment management firm specialising in maximising retirement income for pension phase investors and SMSF investors.

Plato was founded in Sydney by Dr Don Hamson and currently manages over \$4.9 billion in FUM (30 June 2018). Plato is majority owned and operated by its investment staff and supported by its minority equity partner, Pinnacle Investment Management Limited, a leading multi-affiliate investment management firm. For more information please visit www.plato.com.au

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