# The Australian Finance Podcast Episode Transcript

**Episode**: $10k share portfolio: 9 investment ideas in 2021
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**Speakers**: Owen Raszkiewicz, Kevin Fung, Kate Campbell & Cathryn Goh
**Duration**: 51:12

## Please read this prior to using this transcript:

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## Episode transcript:

Owen:
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Owen:
Kate Campbell. Welcome to this very special episode of the Australian Finance Podcast.

Kate:
It's been highly requested, and I know everyone's really looking forward to it, and there's been a bit of a buildup, so hopefully we don't disappoint.

Owen:
Yes indeed. I think this episode could well be the most popular episode we ever do for the series.

Kate:
You think it's going to be 21 things in 2021?

Owen:
For those listeners playing along at home, that is our most popular episodes by a long way. It's like that episode daylight and some other stuff that we've talked about in the past, I think this one is going to be bigger and better than that one.

Kate:
Otherwise I'll never live down my fish finger tip.

Owen:
Yeah, that's it. Also, your parents splitting a coffee. Splitting one large coffee, you get two small ones with the same purchase.

Kate:
Every family member knows that now. I didn't realise how many people were listening to this.

Owen:
The barristers around Australia are outraged.

Kate:
I know. I’m crippling the coffee industry.

Owen:
Over to you.

Kate:
All right. Today is the final episode of our shares month series that we hope you've been enjoying thus far. It's something new for us that we haven't really tried before. If you haven't listened to episodes one to four, where we went through our share investing checklist, we introduced you to Cathryn and Kevin analysts at Rask Invest. Of course, you already know Owen, and then last week we answered some of your questions. So this final episode, we're going to be giving you a hypothetical portfolio of where we'd be investing some money today. There's a few rules that we'll introduce in a second, but I think it's important to just introduce everyone first. Cathryn, say a couple of words about yourself.

Cathryn:
Hello. I am Cathryn. I am an analyst at Rask, and I'm mostly focused on Australian companies.

Kate:
Is your stock going to be the best one to pick today?

Cathryn:
I guess we'll find out.

Kate:
What about you Kevin?

Kevin:
Analyst at Rask as well. Covering all sorts of things from global companies to some of our rockets picks, which are smaller companies that are coming up. Love just learning about businesses and investing, so I'm really happy to be here, guys.

Owen:
Tell us about yourself, Kate.

Kate:
Me? I've been around here way too long.

Owen:
Entrepreneur?

Kate:
Yes. Totes. I'm the only one in this room that's not an analyst.

Owen:
She says that, but she is. Go on.

Kate:
I'm an analyst of life. Anything I say today is not to be taken as an analyst pick. It's just things that I like, and my research process is very loose. Let's just say that, compared to the other three in this room, where they actually are doing the proper due diligence for our members, but I'm not doing any research for our members on the share side of things, so I can just choose what I like.

Owen:
Fair enough. Everyone can choose what they like because here's, I'm going to start with the rules of the game. But first of all, to explain the rules of the game, I need to give you a warning, that what we're about to talk about can be quite sensitive for people. Investing money in stocks can be risky, so anything that we say here is limited to general financial advice only. We're not giving you personal financial advice, as crisp as Kate's voice sounds coming through this.

Owen:
We actually are talking to many people at once. We don't know who each individual person is on the end of this microphone, so please keep that in mind. If you want someone to sit down with

you, do a risk profile, understand your needs, goals or objectives, you need to speak to a financial advisor.

Kate:
That's not us.

Owen:
That's not us. We are simply providing general information and I'll tell a story about a certain fellow in just a moment. Shout out to Ryan Hastie, who gave us a piece of slang, which is busier than a one legged river dancer. We actually have been really busy preparing this episode. The story. The story starts like this, don't be a Dilbert. Dilbert would buy each of these shares, these ETFs, and these investments that we're about to talk about without thinking about his or her risk profile goals, reading the PDS, or speaking with, we'll say his financial advisor. Investing can be risky. Things will go up and down, sometimes very fast. This is normal, but it can be risky. Notice how I've said that a few times. Don't be a Gullah and carry on like a pork chop if your shares fall 10% in a day, a week, or a month, or even a year.

Owen:
If you haven't followed all of our steps in episodes, one to 11, that includes getting your go-bag sorted, which is your emergency fund, having a reliable income, you've got three plus years. You could invest your money for three plus years without worrying about it. If you haven't made sure your partner is on board, then go and do those things first, and then start investing. Dilbert would buy all of the shares and ETFs we're about to talk about. Chuck a wobbly when it goes down a few percent, and then never come back to the share market. I see this all the time. Basically Dilbert would think the share market is a dog's breakfast. He'd probably call investing gambling, and then convince all of his friends and family, and then teach his kids that investing is risky. He'd probably even open a fake account online, jump onto Reddit, and then start fear mongering, spruiking fear on Facebook trolling investors who try to do the right thing for the longterm.

Owen:
You know what? Dilbert would probably sound smarter than all the optimists like us who are just trying to say that investing is not like gambling. Investing is about finding businesses, and just owning them. Dilbert would have a problem for every solution, all because he didn't think carefully before investing. That's the story about Dilbert, and it's a bit of a side, I guess, degression, but what we're going for here is a bit of fun. We're talking about investing $10,000 hypothetically. There are four of us in this room recording right now. The rules of the game are this. Each person is assigned two and a half thousand fake dollars. By my count, that would be $10,000 overall. No one person can have more than three ideas, three investment ideas, three ETFs, three shares. You can only have a maximum of three and you have to tell us how much of your $2,500 is going to be invested in each one.

Owen:

Without further ado, Kate, we're going to have to start with you, because you are the grand analyst of the Australian Finance Podcast. I think that should be her new title. We're going to go with you. You've got your first one of three, it's a company or an ETF. What are you picking? How much are you investing in it? What is it? Tell us about the company and some of the risks.

Kate:
All right. Here's my non analyst pick. But back in December, when we thought about doing this whole series, I knew that a company I wanted to talk about on the show was Disney, and I roped in everybody else around me to actually help analyse Disney. I think it just made me love the company even more, just because I think Disney is one of the few companies in the world that can actually make magic seem real. I think it would be remiss of me not to include Disney in my portfolio. I do own about $200 of Disney shares, but for today's purpose, I'm going to allocate $750 to Disney. I think if you want to know more about the company, listen to the other two episodes. I'm not going to repeat myself, but I think Disney is super diversified across the entire company.

Kate:
It’s got such a unique brand and personality, and I don't think anyone can replicate it in the same way. It's been going for a long time. I know Owen wanted us to all talk about some of the risks of each company. I think some of the risks as we highlighted in the episodes, and I know Kev definitely mentioned was prolonged closure or limited capacity of the parks, hotels, cruise ships, which I don't even know if cruise ships are going to happen. I don't know. Cruise ships still on pause. Holidays and also the risk of a big budget, because they're spending like 500 million plus on some films, film flopping.

Owen:
Film flopping?

Kate:
Yeah. If they make Avengers number three and that completely crashes, because they finished the plot with the second part, that could really destroy some capital, but that's my first pick.

Owen:
$750 to Disney. That is on the New York Stock Exchange, NYSE under the ticket code, D-I-S, Dis. Disney.

Kate:
Don't diss Disney.

Owen:
Don't diss Disney. Kate's allocated $750 fake to her position. Wonderful first pick. I've got to say, I saw this coming based on the last month episodes, but that's okay. Great pick. Nonetheless, there are no points for originality. Cathryn go.

Cathryn:
Yes.

Owen:
The youngest member of the team.

Cathryn:
I guess so.

Owen:
I think you are, that means you have the best ideas, so over to you Cathryn. What is your first pick? How much are you allocating?

Cathryn:
I think I want to put 1,000 bucks in this one.

Owen:
Whoah coming out swinging.

Cathryn:
Big guns, but I'm going with the largest company in the world. Anyone wants to guess?

Kate:
Disney?

Owen:
No.

Cathryn:
No. I'm looking around in this room right now we're all together, and I see three Mac books, probably three iPhones. We've got keyboards, mouses, Apple Air Pods in my pocket. Kev's you're the odd one out here.

Kevin:
I am definitely the odd one out here. Just flying the odd ball flag.

Cathryn:
But yes, my pick is Apple.

Owen:
Never heard of it.

Cathryn:

No. What is it? It just ticks so many boxes of what we look for. The checklist. It's the epitome of brand power. You pay thousands of dollars just for an apple product. Extreme customer loyalty, high switching costs. There's heaps of optionality. Apple has expanded into watches for example, Air Pods, heaps of new products coming out, and new services as well particularly, which is what we think at ROSC is really going to be really important for Apple going forward, the services business. It's higher margin, meaning that more of the revenue dollars flows down to Apple's bottom line, like profit for services business. That's like iCloud, Apple music. What else? Apple TV, fitness, all those things. What else?

Cathryn:
Network effects? I know I've heard stories of people sticking with iPhone or moving to iPhone because of the iMessage blue bubble balance sheet. It's got about $204 billion of cash on its balance sheet, and that is more than the market cap of 465 stocks in the S&P 500. That's just an idea of how big this company is, and the most recent results it was seriously impressive. It grew revenue at 54%, and this is a $2 trillion company growing revenue at 54%. It was really, really impressive. Probably a bit of an outlier because it's coming off growth in the iPhone 12, so it's super cycle upgrade, but really impressive business. Yes, plenty of risks of course. Probably a big one is regulation. I'm sure you've heard of plenty of fines and lawsuits.

Cathryn:
I think there's currently one at the about Apple's app store. How it's got a monopoly over the market. I think Spotify is one of the companies suing about the 30% cut that it takes on all the purchases that go through the app store. In the short term is also the global chip shortage, which is happening all around the world for the chips that go into electronic devices. Then of course, competition is another big risk as well.

Owen:
Cool. Built like a brick house, it's got over $200 billion of cash on its balance sheet. It does have debt. Most of us use iPhones every day, and we pay as Kev would say, overs for that luxury. But it is by far the best, I guess device maker in the world, just based on its profitability and its ability to switch into services, revenue. Kevin, we've just come off a wonderful pitch of Apple. What have you got for us, and how much are you allocating to your first investment?

Kevin:
My first pick is Pinterest and it is the ticket code there is P-I-N-S on the New York Stock Exchange, and I'll be allocating 800 buckaroos to that.

Owen:
800 buckaroos, I like it.

Kate:
It's precise.

Kevin:

It’s really a social media app and a website, and it really revolves around search relevance and discovering new ideas. What we mean about that is it's an app that people go on to plan their wedding, or to look at for inspiration for their reno, or to look for interior design ideas. We think the app and the platform has a bit of a secret source, and why I think that is, because it all links to buying intention, because when you're going on the website or on the app and you're flicking through pretty pictures and all that, looking for new ideas, eventually further down that journey of the process that you're doing, whether you're planning that wedding or doing that reno, you're probably going to have to buy some goods at some stage.

Kevin:
Because the Ads that it's serving up and the algorithm is quite clever, those Ads that you are actually being served up, are probably the products that you actually want to buy. That just means that the conversions are super high for any advertisers that are putting Ads on the platform, and we think that there's a really loyal customer base that are on the app. That user base is growing quickly as well, and we think it solves that search and discovery problem, as well as converting that into a final purchase. The risks I would say for this company is competition. Pinterest isn't small by any means, but it is small compared to some of the juggernauts that it does play with. You've got Google in one corner, which just owns everything in terms of just Google search.

Kevin:
Everybody goes on the internet, they don't type in a website, they just go to Google and enter in what they want, or enter in what they're looking for. Then obviously you've got on the other side is Facebook. With Facebook owning Instagram and WhatsApp and Messenger, it's just an absolute juggernaut. You've got guys, and they've got a history of really replicating things that other companies have found successful, whether that's Snapchat or TikTok, Zuckerberg who is the founder and leader of Facebook, has found a way to replicate that technology and put it into their own apps. There's massive competition out there, but we think that it’s got a bit of a unique advantage, and yeah, we think that the advertising conversions are super high.

Owen:
If you're one of the 400 million pinners in the world, you will know the platform inside out. If you're not, visit pinterest.com to find out what it's all about. I was on there the other day, looking for a breakfast bar inspiration box on the decking inspiration. Trying to find out how I can build a box and a mobile decking and put that on my decking man-cave inspo. There are so many things you can do on Pinterest. It is, as Kevin says, a visual search engine, so it's good pick, high growth type business. 800 buckaroos too. Not even dollars, just buckaroos straight out there with the big ones. The grand reveal, my first pick.

Kate:
Better be good after all this big talk.

Owen:

It's been a mystery listeners. Kate is the only one that revealed in advance what her companies would be. She is so confident that they stand scrutiny, that she put them out in advance for us to just let her know. But my first one, I am not nearly as confident. No, I am, is PayPal. PayPal on the NASDAQ stock exchange, N-A-S-D-A-Q as I'm writing it out is P-Y-P-L and I am putting $1000 hypothetical into that. Thank you very much.

Kate:
Starting high.

Owen:
Starting high. Go big or go home. That's actually Cathryn and I both thousand dollars out of the gates. PayPal, what does it do? You've probably seen it everywhere, so I probably don't really need to explain the basics of it. But PayPal has been around for a very long time since Peter Teal, Elon Musk, and a bunch of other gurus founded the company and came together to decide to create something that would allow for cross border transactions of currencies, and allow for payments online. They were effectively a Bitcoin 20 years ago.

Kate:
Before Elon decided he wanted to go to space.

Owen:
Yeah. Before Elon went to space, he was making a website called x.com. He still pays for that domain. If you visit x.com in your web browser it will come up with why, and that is the only thing on the homepage of x.com, because originally it was for cross currency transactions. Then he came together with Peter Teal and all the others to create PayPal. PayPal then went through the series of rapid growth and it became the default trusted logo on the internet when you made payments. I think Kev, you talked about in the last episode, how people until they've done online shopping, they're just not sure.

Kevin:
It's just that unknown, and what PayPal did was really provide that certainty that when you’re paying for something, it's like that handshake relationship. It's that trust that they're built. Great pick.

Owen:
Thanks mate. PayPal, it went through this iteration where it then became part of eBay. That was good and bad. Ebay effectively opened PayPal up to hundreds of millions of users of the internet who were in that early marketplace buying and selling goods, which then by default created a PayPal account for them. Now it's a lot more. The market is growing faster than ever in terms of global e-commerce, but there are more competitors. That's one of the risks. PayPal is up against companies like Stripe, which is a private company. We take payments at Rask for memberships via Stripe, no longer with PayPal, but we do take PayPal on the education side.

Owen:

There are risks there, but PayPal, for those of you who are listening from the US, you will know that PayPal also owns Venmo, which is one of the fastest growing direct to consumer, like peer to peer. All of us could share money pretty much. We could split a bill for dinner instantly through Venmo. It also owns Honey, which is that browser extension that you see in Chrome, which automatically finds the best coupon codes.

Kate:
It's the one all the YouTubers spruik.

Owen:
Yeah because they get referral fees, affiliate links, but it’s a good, why wouldn't you download Honey to your web browser if you're buying stuff online? It gets you the cheapest deal straight away. PayPal has got so much cash and cash flow that it just puts back into acquisitions or buys back stock or whatever. It's a risky business in so far as competition, and whatever happens to global payments, like Apple pay is making huge inroads to this. So keep an eye on that. For 1,000 buckaroos PayPal it is. Kate.

Kate:
When I go to checkout now online, and there's the option of Apple pay, I pick Apple pay.

Owen:
Damn it.

Kate:
It's even easier. You just face ID. It all happens within the phone.

Owen:
PayPal and Apple share, so I'm happy for both.

Kate:
Apple for the win.

Owen:
You could pay with PayPal via Apple pay and you can pay me twice if you wanted to. I don't think you can do that. I don't know where I'm going with that.

Kate:
I don't know where you're going there.

Owen:
That’s one each. I feel like we've got to tighten up these pitches. Let's get them tighter for this next round.

Kate:

Pick number two, Amazon.

Cathryn:
Surprise, surprise.

Kate:
Jeff Bezos' book baby that's taken over the world, and my home.

Owen:
Book baby.

Kate:
Ever since Owen got me hooked onto Amazon late last year, because he gave me a voucher, and now I suddenly turned into don't use Amazon to a very loyal customer. I've fallen in love with Amazon Prime, and the fact that I can order a book on a Saturday and have it arrive at my house in less than 24 hours on a Sunday, and that's Australia. Australia post just cannot compete with that. As much as I love walking down Collins Street in Melbourne to Dymock's, and I will support them to the ends of the earth, they don't have everything. They don't have the best prices, and Amazon is a good compliment to that. I have very much enjoyed using Amazon. I think if I'm going to spend that much money, I should put $750 on the line. Which is probably the amount I've spent on books over the last year.

Owen:
Kate's book game is very strong.

Kate:
I had to buy a new bookshelf to deal with that from Ikea, but I don't. Is IKEA a listed company?

Owen:
I don't think so. Maybe in some Scandinavian country.

Kate:
I'd totally support Ikea too. That was insane, that store. But Amazon owns so many different things, including their own TV service, and I have enjoyed that as well, but in US like whole foods and things, they own Audible, which is also another favourite of mine. I just think if I'm going to spend this much money with Amazon, I'm going to invest in Amazon, and that is my fundamental analysis of the company. No metrics. I have not looked at any numbers that we've discussed in any of the episodes. I've not done a single piece of analysis, but I'm spending money there, I'm going to invest in it. But I guess risks, thin profit margins, challenge to continue growth at the same place, because it is priced quite now for strong growth. This is what Google told me, so there you go.

Owen:

Fun fact about seeing that we're sharing a web browser URLs. Amazon originally didn't start as amazon.com. It started as relentless.com. It was named that way because it would be relentless in its focus on customers, which it has done for more than 20 years. Great pick from you, Kate. Cathryn, yes. I'm expecting big things for you in round two. Go.

Cathryn:
I think that's going to be the first ASX pick from the group so far. I thought I'd try mix it up a bit. I've got one US pick, one ETF, and one ASX stock. This one is an ETF. It is the cybersecurity one, so Hack. ASX HACK is the ticket code.

Kate:
Hack?

Cathryn:
Yes. BetaShares, global cyber security ETF. Basically it just invest in a bunch of, I think it's 40 companies at the moment that are exposed to cybersecurity. I think in this day and age, especially in the back of COVID with everything moving online, I think cybersecurity is just going to become increasingly relevant.

Owen:
How much are you putting into this bad boy?

Cathryn:
Of course, 750.

Owen:
750?

Cathryn:
$750.

Owen:
Seven big, 50 ones.

Cathryn:
That's the one. The companies that are currently in this ETF at the moment, you've got big names like Cisco, Accenture, CrowdStrike, what have we got? CloudFlare. You might not be familiar with these names, but they cover the whole security spectrum. Not just the actual software providers. There's consulting, there's the network, but yeah.

Owen:
Network security?

Cathryn:

That's the one. Just the whole range.

Owen:
This would be an easy way, excuse my interruption. An easy way to get exposure to a whole heap of different cybersecurity companies rather than picking one?

Cathryn:
Exactly, yeah. It's a thematic ETF and the thematic is cybersecurity. 0.67% management fee, which is a little on the higher side for an ETF, but it's usually what you can expect for sector specific tactical ETF. In the short term, I guess a risk is a lot of these companies in the ETF high growth tech stocks, so they're going to be very volatile, and long-term risk is that the cyber security industry doesn't grow as quickly as everyone's expecting. But just a quick article I found from Forbes, just some numbers. The global cybersecurity market is currently worth $173 billion, and it's expected to grow to $270 billion by 2026, so there are heaps of industry figures on this market online.

Owen:
Cool. I feel like I've been hacked a few times, so there is definitely, I understand the use case for a lot of these companies. Good pick. Hack. H-A-C-K on the ASX. There's seven letters for you to digest. Kevin, numero two from you, amigo, what is it?

Kevin:
Following on from the Ozzie theme from Cathryn, is my number two pick is EML payments, and that tickerEML, code is E-M-L on the ASX, and I'll be allocating $800 again to this company.

Kate:
I knew someone was going to pick it.

Kevin:
Put it simply, it's an Aussie based FinTech company that has been growing pretty fast over the last couple of years. It's all about payments and payments infrastructure. We think the payments is a really great business model because once you set up the infrastructure, then the business model allows for really scalable growth, and what we mean by that is every additional user or every additional customer that comes onto the platform really comes on at not much extra cost. They do the back end stuff that make payments really work, and ensures that money moves around correctly. They've got a couple of different business segments. One is gift cards and services. When you're buying that gift card for Christmas for your family or friends, they do all the backend infrastructure for that.

Kevin:
They also do something that's called general purpose reloadable, which is basically very similar to that gift card, but you can put money back on it again, and those run on credit card rails, like a MasterCard. Then they've also got another segment called Vans, which is like a virtual account, which basically means that, I don't know if you guys have used Google pay or Apple

pay. You can actually upload a virtual credit card on that, and that just means that you don't have to go through your bank or for people that either that's too slow or they don't want to go through that process, EML provide products and infrastructure for that. The thing that I really love is that they've been going pretty hard in expanding outside of Australia as well.

Kevin:
They're in Europe, they're in the states, and a lot of this has to do with the open banking stuff that's been going on. What that really means for customers in tune is that we have access and better access to our own data. What that means is, instead of the bank owning all your data and keeping that lock and key, it means that we can use that our own data and go, “Hey can you provide me a product that's better suited to my needs and better suited to my services?" That just means that as consumers, we usually get a better deal that's more tailored to us, and we might be able to save some fees. In terms of a risk for this, they are a bit of a disruptor, but it's a space that's got a lot of competition in it, so we're always on the lookout for what other businesses are trying to eat their lunch. They've also made a lot of acquisitions lately.

Kevin:
Not all the growth that they've been doing has been organic, and with those big acquisitions, like we talked about in last week's episode, there is risk. A lot of companies talk about synergies and things that they can do to save costs. But until that actually plays out, until they go down a year later, or two years later from that acquisition, we won't actually know how that all flows through. That's something that we're keeping an eye on, and there's also obviously dealing with payments, if there's any like security breaches, or system failures, or anything like that, that could be really, really bad for this company. It's also a high growth company, so if this growth starts to slow, there could be some, hits to the share price there.

Owen:
Great pick. EML. We actually interviewed, Cathryn and I actually interviewed the CEO, Tom Cregan, not too long ago. That's available to members of our Rask Invest service. EML, interesting company. Fast growing. I liked how you use the word organic. Just like planting a tree without using any fertiliser, an organic business, a business that can grow organically, I should say is one that doesn't need any acquisitions to get that revenue up. Just organic manure, which I don't understand how that analogy would link back in, but great suggestion.

Kate:
You said fertiliser.

Owen:
Fertiliser. Yes, fertiliser.

Kate:
Manure is a better option.

Owen:

Maybe that's the profits that are reinvest back into the business. I don't know. Who cares? Great pick Kev. I'm going to be a little bit different. I'm going to stick on the ASX as well. Does that mean that nearly all of us have done an ASX pick? It does.

Kevin:
Three in a row.

Kate:
Look at us investing in our home country.

Owen:
Kate, your other one better be the ASX the next one. Because then it's four in a row. It's no pressure.

Kate:
ASX, but not really. The internals.

Owen:
Mine, what is mine? I'm going to start off with telling you how much I'm going to put into it. $500 hypothetical of my two and a half thousand is going into this, and this is a company called Washington H. Soul Pattinson and Co. Or WHSP, or if you want to use the ticket code, it's ASX S-O-L. What on earth is this thing? I was hesitant to talk about this company because it might sound a bit unusual. It's an Australian company that's been around for over 100 years on the ASX, the Australian share market, it is the oldest company. It is a company that has been around since long before I was alive, since before my parents were alive, and since before my grandparents were alive. It is what we call a conglomerate or a holding company. If you are a fan of Warren Buffet, you might understand what a holding company is.

Owen:
Effectively, this company buys parts of other companies. The way they do this is it all started with a pharmacy over 100 years ago. I think it was Louis Pattinson effectively took over a pharmacy chain, and then since then it has grown to go beyond pharmacies. Today, it doesn't own all of these companies, but it owns a big shareholding in the companies I'm about to mention, which include TPG telecom. That is now merged with Vodafone Australia. If you're a user of Vodafone or TPG, you are sending some of your broadband or mobile dollars back to the hands of Washington H. Soul Pattinson. It owns a big part of Australian pharmaceutical industries or API, which is a company that's behind, I believe they're behind Amcal, or they're behind a couple of the big pharmacies I should know off the top of my head, but I don't. A couple of the big pharmacies.

Owen:
If you know Washington H. Soul Pattinson, chemist, or Soul Pattinson, chemist, that's obviously soul Patterson, that's where it all began. It owns a big part of a company called Brickworks. We've interviewed, or I interviewed a company Lindsay Partridge, who's the CEO of Brickworks.

It owns heaps and heaps of these companies, and the key thing about Soul Patts is that it's passed through the family. Currently Rob Milner, is in charge of it, and the son, Tom Milner, who I've also interviewed, which you can go and watch that. Tom is likely to play a big role in the next iteration of Soul Pattinson, and it just keeps getting bigger. I don't think its missed a dividend for 20 or 30 years. I think it's 50 years. Is it?

Cathryn:
Yeah, I think it's the longest dividend track record, of not missing a dividend on the ASX.

Owen:
This is a company that effectively holds other companies, take some of their profits and gives it back to shareholders as a fully franked dividend. This is totally at odds with every single one of the companies that we've already suggested in this hypothetical portfolio. What could go wrong? Obviously management is crucial here, because management decide where the money gets allocated. If they make a poor decision or they failed to invest well for a very long period of time, it's not going to produce the returns that it has in the past. You might also overpay for it. It owns a lot of businesses in traditional industries like bricks. It has exposure to coal.

Owen:
It has exposure to pharmacy. These industries aren't exactly on the bleeding edge of innovation for the most part, but they are very dominant businesses in their respective industries. That's some of the things that could go wrong. It's ASX S-O-L. Washington H. Soul Pattinson is going to be one of the longest names on the Australian stock market. I don't own shares. I think this is one of the only companies I don't own shares, in so far that and Amazon.

Cathryn:
I'll just add to that quickly. It hasn't missed a dividend payment since it listed in 1903.

Owen:
1903.

Kate:
A couple of wars in there.

Owen:
A couple of wars, maybe a recession.

Kate:
Few pandemics.

Owen:
A pandemic or two, and it's steady as she goes mate. Soul Patts. It's probably the number one stock for most blue chip investors and people that love their income. Kate, we are onto the third

and final round. I don't mean to put pressure on you, but as they say, “save the best for last Kate." Tell us what is your third and final pick?

Kate:
All right. I've only got $1,000 left to allocate, so I guess that's what I'm going to have to allocate. My last one is an Australian ETF, but it's investing in US companies. I'm not really supporting Australian innovation here today, but it's the VanEck wide moat ETF. The ticket code on the Australian stock exchange is M-O-A-T. I think that encompasses what we talked about with our checklist, which was looking for companies with a large moat around them. Go back to episode one if you want learn a bit more about moats, but essentially this ETF invests in, I think it's 40 to 50. I looked it up the other day, but I can't remember anymore.

Owen:
About 40.

Kate:
US companies, it is actively managed because they've got the Morningstar research team actually looking for companies that have a large moat, and I'm sure there was like a 50 page research document about how they actually go about finding companies with wide moats, but because it's more actively managed, the management fee is 0.49%. You are paying a bit of a premium for this active management.

Owen:
Compared to say an index fund.

Kate:
Yeah.

Owen:
But compared to other active funds, it's actually quite low. They normally charge over 1%.

Kate:
If I don't want to go and look for the best US companies with strong moats, I could use, this is probably a more tactical ETF, I would say. It wouldn't be the core of my portfolio, but yeah, that could give me exposure to US companies with strong moats. I guess the key risks there is it wouldn't be a core position. It's actively managed and thus the higher management fee, and it's very growth focused. It's got no blue chips in there really.

Owen:
Blue chips by American standards, I guess.

Kate:
Yeah. They've got quite different.

Owen:
This is an ETF that I own. At one stage Amazon was in there, which is another one of your picks, but things tend to get booted out of the moat ETF if they are no longer undervalued. Things tend to turn over pretty quickly.

Kate:
There's active management. It's not a slow passive ETF. It's done quite well in the recent years, but it might not continue if we-

Owen:
Past performance is not indicative of future performance as they say on that super Ad where they cup their hands.

Kate:
Owen's favourite Ad of all time.

Owen:
It's strange. Imagine walking up to someone in the street and actually doing that.

Cathryn:
Compare the pair.

Owen:
Compare the pair, and then someone walks at you, you'd be like, "Get away from me."

Kate:
That's what Owen says every time anyone comes near him.

Owen:
Yeah, actually I'm allergic to people, but okay. Cathryn. That's great Kate.

Kate:
That's my final pick.

Owen:
Congratulations. You are an analyst, and you have to shown your abilities to go from the ASX to overseas and back again, but kinda not with an ETF. You are effectively the all-rounder.

Kate:
It's just a portfolio in itself.

Owen:
You're the Shane Watson of this podcast.

Kate:
What could go wrong. Is that a cricket player?

Cathryn:
Well done.

Owen:
You're an all rounder.

Kate:
You three sporties. I'm the only one in here that's not a sports fan.

Kevin:
Kate's got a pretty good cover drive drive for listeners listening at home.

Owen:
LBW, knows how to go out pretty well. That is wonderful actually. Well done. Really well done to you, because you don't do this every day, and you've come up really good.

Kate:
I'm glad. You put so much time and effort into analysing companies. I do not have that attention to detail. 100 plus hours on one company, I just couldn't crack that.

Owen:
But you don't do that straight away. It's often accumulated over the many years.

Kate:
I have not gone through my apprenticeship period.

Owen:
I feel like you have, but anyway, let's move on to the third and final from the biggest hitter in the team, which is, who is Cathryn. Cathryn, what is your number three, and how much are you investing into it with these fake dollars?

Cathryn:
I think I only have $750 left, so this will all be going into my third and final pick, which is Xero. It's on the ASX ticket code X-R-O, and it just basically does beautiful accounting software, which is its tagline. But if I remember correctly, I think accounting software used to be you were sent all these CD discs, and you have to instal them locally on your computer. For business owners, you'd have to get all of your financial data onto a USB stick and then send it off to your accountant. Whereas nowadays there's Xero, and it's a platform that you can access anytime, anywhere, and on any device. All you need is an internet connection. From a business owner's perspective, it consolidates everything into one place, and it handles things from invoices, to cash flow, bank recs, employee leave, and accountants.

Cathryn:
There were the original champions of Xero, so they would tell all the clients to use it because instead of a customer bringing a bunch of bank statements that financial year end, all the data is already in Xero. So accounts can just check over that, create reports, complete tax returns. This removes a lot of the manual entry, and you don't have to categorise spending and all sorts of different things. It backs up instantly to the cloud, and I think, Owen and I used to work at, we shared an office with an accounting company, and one of the guys that used to take his hard drive with him home every day.

Owen:
Shout out to Daniel if you're listening. The one with the hard drive.

Cathryn:
Removes all of that. An important part is there is also its integration. You've got the Xero platform, and it connects to e-commerce providers like Shopify, payments providers like PayPal, CRM. Salesforce, point of sale, square. There’s this huge Xero marketplace, so developers can come and just add on heaps of different products to the platform for integrations. Other things I like is it's a bit technical, but it's called the LTV to CAC ratio. The basic idea for any sustainable business is that it costs less to acquire a customer, which is the customer acquisition cost or CAC. Then what the customer pays over the expected lifetime, which is the customer lifetime value. At the moment, Xero has an LTV to CAC ratio of 6.4 times.

Owen:
Which means?

Cathryn:
This means that Xero thinks that it gets $6.40 back for every $1 it spends to acquire a customer. Basically Xero was spinning naturally all of his money in sales and marketing, advertising to attract all of these customers now, which in the future is going to pay heaps of dividends. Not dividends, but-

Owen:
Figurative.

Cathryn:
Figurative yeah, dividends down the line. It's super sticky, pricing power, all the good things. In terms of risk, it's already priced for a lot of growth at the moment, and also competition. In the US in particular, there's a big, big company called Intuit, which offers a service called QuickBooks, and that's definitely the lead in the US. There's also Sage as well, MYOB, Fresh Books. So Xero isn't the only player, but it's definitely a disruptor.

Owen:
Xero, who owns that share?

Kevin:
I do.

Owen:
I do.

Kate:
No, I looked at it four years ago.

Owen:
It's never too late. It's never too late. That's a good one. Xero. So X-E-R-O?

Cathryn:
Yes.

Owen:
X-R-O is the ticker code. Cool. A Kiwi company that is now Australian. Thank you very much to our New Zealand friends. Kevin, you've got an interesting tech business I believe is your number three.

Kevin:
My final business Owen is Adobe, and that's A-D-B-E and that's listed on the NASDAQ exchange, and I'll be allocating my last $900 to it. It is an incredible software business. That's really benefited from moving its products into the Cloud. It's got a few verbs in its product suite. Think Photoshop for photo, image and graphic design, PDFs and Acrobat for digital documents, Premiere Pro for video editing. It really does own that creative space. It's the market leader. It's the top dog, it's the industry standard. On top of that, it's just got this amazing business model that is insanely profitable. It's still growing very, very fast. It's got a rock solid balance sheet that is built like a brick shit house, Owen would say.

Owen:
There it is.

Kevin:
It's got an amazingly stable and experienced management team. It's really surprising actually that it doesn't get mentioned near enough when people talk about the very best businesses in the world, but like for me anyway, it is one of the very, very highest quality businesses out there. The result of all this is it makes mountains of cash. They are actually so cashflow positive that they return a lot of this money back to shareholders by buying back shares, and it's something that one of Cathryn's picks, Apple also does. Risks, the software industry is always really subject to disruption. We're keeping our eyes out on local players like Canva. If they are starting to really make some inroads into Adobe's mode, that's something that we'll need to reassess.

Kevin:
Then you've got Apple again, really going hard with some of its products like final cut pro, especially when they've paired that with their new M1 chips. They're getting some pretty good performance out of that. Finally, it's not really cheap because it’s a growth stock by any traditional metrics. People talk about P/E ratios and all that stuff, but I think what you do get though, however, is when you purchase Adobe shares is you are getting exactly what you pay for. You are getting one of the very highest quality businesses out there. That is my final pick.

Owen:
Wonderful mate. I like it. I own shares. Can you tell me, can you remind me, this is the company that has $10 billion. Is it $10 billion of assets, and only $1 billion of physical assets?

Kevin:
That's correct, and that's the beauty of the software business model. They don't have to go out and build a factory to produce more goods, and when they write the code for Photoshop or Acrobat, they can just put that in the cloud and then whether a million people use it, or 10 million or 100 million people use it, it just works.

Owen:
When you first come up with this company for us, I was just blown away. I can't believe that this type of thing exists to be honest, how profitable it is. I'm not just saying that to blow smoke up, but it actually is a really fascinating business if you actually dig into the financial statements, but it does have risks. We mentioned Canva, which is an easier platform for people like us just to jump on and make some social media posts or graphics or whatever, and the M1 chips inside Apple, are fine tuned with final cut pro, which is their Apple's version of Adobe's premiere. There are risks, but yeah, fascinating business. Good one. We have allocated ladies and gentlemen, $9,000. 9000 of our $10,000 hypothetical, we are at the very last one.

Kate:
Big day of spending.

Owen:
I'm going to let you all down because I'm going to pick one of the companies that has already been picked.

Kevin:
No.

Kate:
How boring.

Owen:
This is a double-down buy alert as someone might say in our industry, a double-down buy alert, exclusive to podcast listeners. Here we go, ladies and gentlemen, it is drum roll please Kate.

Kate:
Don't be a dilbert.

Owen:
Don't be a deal dilbert, but it is Xero. Cathryn's pick ta-da is back again, and I'm allocating my final $1000 to Xero. That takes it up to a grand total of $1,750 of the $10,000 fake that we are allocating, which by the other people sitting in the back, they know that, that equals 17.5% of our total investment, which is a pretty high allocation to one particular company, so keep that in mind.

Kevin:
That's a lot of fake dollars.

Owen:
That's a lot of fake dollars. That's a lot of scratch. I would just add one thing to what Cathryn said. Actually I'll add two things. The first is that Xero has made something that was totally boring, cumbersome and expensive, super easy. In the past, you might pay, going back 10 years, you might pay $100 an hour for someone to go over your receipts or your spreadsheet to try and work out where money went, and which account it should be associated with. Now, Xero does that for $52 a month if you're a small business. That is incredible in terms of the value creation from this business. Second thing that I'll add is I just looked it up. I think Xero has a market cap, go back to the previous episode dilemma market cap means, which is the total value of the company, of about $17 billion, 17 or $18 billion.

Owen:
I'm going to go on record to say that I reckon five years from now, I think Xero might be even $50 billion. Big call, very big call from the Rask right here. That said, I think it is not going to be a straight line. This is a company that is super high growth, super differentiated, and that means that it's not going to be an easy ride if it gets there. That's if it gets there, but I am very confident in Xero. I think it has the potential to be one of the bigger companies in Australia. The reason I think that is because what Xero has done so far, is it has created the backbone for accounting software. What we know now as Xero, you put it in it reads your bank statements, blah, blah. But there are thousands of apps and developers actively working to create new tools that link in with Xero, and that being so close to the coalface of these businesses is going to be more and more valuable over time.

Owen:
Think of ways that it could grow in terms of offering loans to these businesses, actually becoming the point of sale service or providing gateway services, integrating with this, that, and the other. I think it has a long way ahead, and I think the amount of money that Xero charges right now for its customers is tiny to what it will be in the future. We pay $52 a month at Rask. I would pay, don't listen to the Xero, $500 a month for what it does for us. If you just think about that, the enormous value creation that this company has in front of it, and its ability to extract

more value over time, I think it's underestimated. They recently increased the price of Xero software, $2 a month, and that might not sound like much, but when you've got over a million subscribers, $2 a month is a lot of money for doing no more than you're already doing, and I think that we're going to see more of that in the future, and I'm happy to pay the bill because it adds so much value to it.

Kate:
We're going to come back in five years and see if your call was correct, or if you-

Owen:
Five years, all of these 10 picks are going to be Xero's, but hopefully not. Let's be honest. No, this has been a great time. I think this is a great way to end on a high with our shares month.

Kate:
I think it's important to remember that these are just, all of our ideas today are just a part of our portfolio. All of us, we have diversified portfolios with ETFs, shares, managed fund, may be property in Owen's case, but if we do invest in these companies and own some of these companies, it's just a small portion. We're not going out and putting our full $1,000 that we have on red. Just keep that in mind, if you are listening today.

Owen:
The reality is, our Australian Finance Podcast has a lot of beginner investors listening. So don't just run away with this, don't be Dilbert. Please listen to that disclaimer, at the top of the show. Go now, use all of the skills that we've just taught you over the past month, and what you're going to learn over the next three years during your investing apprenticeship, and learn about these companies. Learn about Apple, learn about Amazon. Go hiking in South America Kevin.

Kevin:
I think the fun part is learning and don't be afraid to own many great businesses. Don't limit yourself to five or 10, and I think that just means that you've got your chips spread over a number of brilliant businesses.

Owen:
Not everyone will work out, that's just reality of investing, but yeah, it's all about being in the game. We'll be in it to win it. I feel that's an Australian piece of slang. Got to risk it for the biscuits says Cathryn wonderful piece of advice. If you liked this episode, we'd love to know what you think.

Kate:
Yeah. It's the first time we've done this thing. I know we did a 10K episode last year, but I was just Owen and I, so we brought in the big dogs today. Let's hear what you think about having Kevin and Cathryn on the show.

Owen:

Is it a dog's breakfast or is it a rip snorter of an episode? You have to let us know by jumping into Facebook or letting us know on Instagram, or wherever you choose to just let the socials know what you're doing.

Kate:
Good job Owen.

Owen:
I'm an old geezer according to Kate, I guess.

Kate:
He's got a few roo's loose in the top paddock. There we go. Got it in.

Owen:
A few roo's loose indeed. All right. Thank you so much for listening. Kevin, thanks for joining us.

Kevin:
Lovely to be here guys. I had so much fun.

Owen:
Cathryn, thanks for dialling in.

Cathryn:
Thanks for having me.

Owen:
Kate, thanks for joining me as always.

Kate:
I'm here every week. Thanks for tuning in to this episode of The Australian Finance Podcast, where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account at Rask.com.au/account to download free episode workbooks, bonus resources and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snap, your review on iTunes, and you can follow us on Twitter and Instagram at Rask Australia. Kate and I also own both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email@podcastatrask.com.au.