

The European Football Championship colloquially known as the Euros is currently in full swing with tournament hosts France looking to give themselves every opportunity to win their first major trophy since the year 2000 when they defeated Italy by a golden goal from David Trezeguet.

But the key question we ask here is: how does a team win a sporting event of this calibre and put itself in a position to consistently deliver and reach its objectives?

As a little fun, for this month only we thought we would look for a correlation between the historical success (or failure) of teams within the Euros and the building of an Equity Income portfolio!

It made for some interesting analysis and comparison!



## So what are the attributes to look for when assessing an equity income portfolio?

- Clearly there are many aspects, but we suggest that investors would have to assess the following carefully:
  - The consistent delivery of income
  - Lower volatility than the market – low beta portfolios
  - A growing capital base – income at the expense of capital should be an automatic red card!
  - Stock selection is key – avoidance of yield and value traps by looking at the sustainability of the company's dividend.
  - Active management and have diversity in the portfolio - don't solely rely on the large benchmark stocks for your yield.
  - Process driven – are the outcomes repeatable and sustainable?
  - Track record – has the Fund been tested through a market cycle?

With this in mind – what correlations can we draw to this year's Euro teams and how do they shape up as either a portfolio or a stock?



**Portugal** – When their star Cristiano Ronaldo is on fire, Portugal are red hot. When he is not in the mood then one can expect an early exit from the tournament. When Cristiano has the ball at his feet and is in full flight, Portugal are unstoppable - yet conversely when he doesn't - and this kid doesn't like to defend – they are left exposed.

**EIF portfolio assessment** – a clear lack of diversity, a portfolio that can't be relied upon to deliver as it relies on just one stock.



**England** – Always looks great on paper, the press builds them up with every publication coming out with a headline of the sorts: "It's ours this year – hear the Lions roar". Two weeks later and its back on the plane and all eyes on the cricket!

# DRAWING PARALLELS BETWEEN THE EUROS AND EQUITY INCOME FUNDS



In reality, England has not made it past the quarter final stages in a major tournament since 1996. All too often when the pressure gets tough England find themselves on the wrong end of a penalty shootout.

**EIF stock assessment** – when the market turns lower and the pressure is high, a portfolio requires defensive industrial type stocks that can consistently generate income throughout the cycle. England as a stock would not be selected for high quality portfolios, when the pressure is on, the stock never ever delivers!



**Italy** – Can be brilliant one day and woeful the next, those feisty Italians play with so much passion, the hopes of a nation ride on the Azzurri. Cast your minds back to 2006 when Italy was unexpectedly crowned World Champions after beating France in a dramatic penalty shootout. Four years later and Italy could only draw with New Zealand, a team from a country more used to scrums and line outs, thereby finding themselves eliminated in the group stage and on the early plane back home to Rome. Sometimes the Italian passion gets a little in the way of strategy and tactics and is pretty hard to assess. If you want to watch a good looking bunch of guys with immaculate haircuts and which will give you entertainment, drama, heartbreak and big ups and downs, then this is your team!

**EIF stock assessment** – when the market is hot, this high beta name will outperform, but we know it can turn on a dime. For a retiree, capital preservation is essential and by lowering the beta of the portfolio, volatility is reduced and more consistent returns can be generated. If the Italian team were a stock, it would be high beta and highly unpredictable – and not suitable for building retiree portfolios!



**Republic of Ireland** – Arghhh top of the morning to you! This jovial lot has qualified for just their third major tournament since 1994. Whilst they may have a little leprechaun resting on their shoulder, a lack of big tournament experience will be the telling point – eventually leading them and their fans to the closest bar serving copious amounts of Guinness.

**EIF portfolio assessment** – a track record for any fund/portfolio is paramount. Chose a portfolio that has consistently delivered through the cycle, in up markets, down markets and flat markets. One off performances might be well and good, but how will the portfolio perform over the longer term, essential for retirees facing longevity risk. Ireland is too high risk and inconsistent to be considered for any retiree portfolio.



**Germany** – Finally we finish with the Germans, the current champions of the world and a country that has consistently made it to the semi-finals or above for the good part of every modern football tournament. We ask, how have they done this? Good players – yes – but what has really guided them to the pinnacle of the world game has been process, process, and process!

Each player understands their role within the team (diversity of the playing group) and every scenario is accounted for. It may not be the most exciting brand of football and you may not get the goal of the tournament coming from the Germans, but what you will get is consistency and a strong adherence to a proven process throughout the tournament.

**EIF portfolio assessment** – Process is key, discipline in building robust portfolios and not getting carried away with what the market or various sectors are doing is essential. Stick to your knitting and over the longer term you will be rewarded with consistent outcomes.

If Germany was a stock or a portfolio, the retiree would be a winner with this one over the longer term!