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High yield domestic equities continue to generate strong income over time: SSgA

SYDNEY – November 21, 2012 — Investors who opted for a high yield Australian equity strategy over the past 10 years would have achieved significantly better returns than those who maintained allocations in cash over the same period, research[1] by State Street Global Advisors (SSgA) has found.

An investor who placed $100,000 into quality domestic shares paying strong, sustainable dividends in June 2002 would have been $37,700 better off by June this year than an investor holding an average term deposit.

The high yield strategy[2] would have risen to $105,000 in the 10 years to June 2012 and generated dividend income of $85,600 (including franking credits) over the whole period. By contrast, the real value of a $100,000 term deposit would have been eroded by inflation and generated interest income of $52,900, according to SSgA.

"The figures suggest that investors who retreated to the security of term deposits during the market volatility of recent years may have been better off allocating funds to a high yield equity strategy," said Amanda Skelly, head of SPDR ETFs at SSgA.

"While the security of cash may be tempting, it is critically important for investors in their early retirement years who no longer earn a salary to have some element of capital growth in their portfolios. Investors who want their retirement savings to last for 10, 20 or even 30 years need to maintain their exposure to capital markets so they can keep pace with inflation and benefit from longer-term capital growth. A dividend-oriented strategy can provide the benefits of income higher than cash as well as potential future capital growth," Skelly continued.

She added that in the short-term, cash deposits are also likely to become a less attractive income-generating option with further rate cuts expected by the Reserve Bank of Australia, however this needed to be weighed up against the investor's ability to accept risk of capital loss from an equity-oriented strategy.

Investors can buy into a high yield equity strategy by directly owning shares, buying through a managed fund or buying units in an exchange traded fund (ETF) such as the SPDR MSCI Australian Select High Dividend Yield Fund (Ticker: SYI).

For the 12 months to 30 September 2012, SYI, which tracks the 47 component stocks in the MSCI Australian Select High Dividend Yield Index, delivered a dividend yield, including franking credits of 7.4 percent[3] compared to an average bank term deposit of 5.5 percent[4].

High yield equities strategies like SYI carry franking credits which typically range from 70 percent to 100 percent. Franking credits can add an extra 1.3 percent return on a 4.5 percent dividend yield that is 75 percent franked.

"Maximising franking credits is a simple step for those looking to boost income or reduce tax," Ms Skelly said. "For that reason, the SYI can be a key part of a modern day retirement solution."

[1] SSgA research note: *A Case for Dividend Investing*

[2] Assumes a strategy that can replicate the return of the MSCI Australia Select High Dividend Yield Index from June 2002 to June 2012. Buy-and-hold strategy and assumed no reinvestment of dividends. When dividends are reinvested the returns can be significantly higher. It is assumed that the franking percentage during the period was 80 percent.

[3] Based on $10,000 invested in SYI on 30 September 2011, buy-and-hold strategy (ie no reinvestment of distributions), excluding brokerage fees and included total franking credits. The return does not include gains/losses from the original value of the investment. The total return would have been 4.9 percent if this is taken into account.

[4] Average one year bank term deposit for $10,000 made in September 2011, per the RBA statistical tables. The average one year term deposit as at end of September 2012 is 4.4 percent.

About SPDR ETFS

Offered by State Street Global Advisors, SPDR ETFs are a family of ETFs that provide investors with the flexibility to select investments that are precisely aligned to their investment strategy. Recognised as an industry pioneer, State Street Global Advisors created the first ever ETF in 1993—the SPDR S&P 500®, which is currently the world's largest ETF.2 In 2001, SSgA introduced ETFs in Australia when it launched the SPDR S&P/ASX 200 Fund and the SPDR S&P/ASX 50 Fund. Currently, State Street Global Advisors manages more than US$300 billion of ETF assets worldwide.[5]

For more information about our ETFs or how to invest, please call +612 9240 7600 or email info@spdrs.com.au.

[5] Bloomberg, as of 30 June 2012.

About State Street Global Advisors

State Street Global Advisors (SSgA) is a global leader in asset management. The firm is relied on by sophisticated investors worldwide for its disciplined investment process, powerful global investment platform and access to every major asset class, capitalization range and style. SSgA is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors.