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Stock tips from a top stock picker

Christine St Anne | 10 Jul 2014

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As an investment manager who has outperformed the market over the past 10 years, Investors Mutual (IML) certainly knows about investing.

IML founder Anton Tagliaferro is known as something of a "market veteran". Founding IML in 1998, Tagliaferro kicked of his career working with the highly regarded Perpetual Investments.

In 2010 he was joined by Hugh Giddy and three analysts from Cannae Capital. Giddy brought a wealth of experience from well-known investment firms, including Perennial.

This week, the investment manager launched a listed investment company (LIC) that targets retail investors, including self-managed superannuation funds (SMSFs).

QV Equities Limited (QVE) is a LIC that invests in companies outside the top 20 stocks in the ASX 300.

QVE's offer period will be open from 14 July to 8 August 2014 and aims to raise between $100 and $200 million. The LIC will not charge any performance fees to its investors.

For Tagliaferro, the bulk of investors already have exposure to the big four banks and Telstra (TLS). Therefore, the QVE aims to "provide investors with greater diversity to quality Australian businesses".

With a strong track record of investment returns, Tagliaferro recently caught up with Morningstar to share his insights into how he approaches the market.

The QVE will replicate the investment process adopted by Tagliaferro and his team when managing the IML Australian Share [5339] fund.

According to Morningstar research manager Tom Whitelaw, IML's valuation discipline is one of the strictest in the market, assessing companies from a multiple of angles.

Different metrics are applied to different industries. For example, discounted cash flow is applied to more stable industries such as retailing.

As value investors, IML adopts a bottom-up investment process. This means the team focusses on the qualities of a company rather than the broad economic environment.

Tagliaferro says the key attributes IML looks for in a company include strong competitive advantages, recurring earnings, good management and price.

He says recurring earnings ensure a company can generate predicable earnings streams that will support future growth and dividends.

"Good management is obviously important as they ensure a company can develop good earnings growth," Tagliaferro says.

Identifying good management is derived from IML's "rigorous" company meeting schedule.

The price also needs to be right, according to Tagliaferro.

Acknowledging that the market is currently "a little expensive," Tagliaferro says he prefers his team to wait for quality businesses at the right price. But he says there are "always new opportunities".

While the big four banks and Telstra are well-known dividend-paying stocks, Tagliaferro says income can also be found in the mid-cap sector. His favoured stocks in this space include Sonic Healthcare (SHL), Ansell (ANN) and Orica (ORI).

Those companies are also positioned to deliver good dividends to investors.

"A lot of companies outside the top 20 are still quality businesses with a long history of growing their dividends. We actually prefer those companies that can deliver on both growth and income," he says.

Premium subscribers have access to Morningstar's in-depth reports on IML's research processes and the funds they manage.