HC SECURITIES

EQUITY RECOMMENDATIONS
MEDIUM TO LONG TERM STRATEGY

STRATEGY OVERVIEW

Strategy Name	Equity Recommendations
Risk Level	Low Risk
Objectives	High upside with managed or quantifiable downside
Market Outlook	Bullish or Bearish
Break-Even Level	Trade Entry Level

What are Equity Recommendations?

As the name suggests, the Equity Recommendations strategy involves scanning the market for stocks that we believe will go up or down in price and then purchasing or selling the stocks accordingly. We also try to identify stocks that offer a strong risk vs. reward ratio and generally, recommendations are of a medium to longer term nature. These types of opportunities can present themselves in a variety of forms including corporate activities and takeover/arbitrage opportunities.

Strategy

A recommendation is made to purchase or sell shares in a particular company based on a number of indicators:

In our view the company is undervalued or overvalued based on its fundamentals.

For example, if XYZ is currently trading at $1.50 and based on our fundamental analysis we believe there is a strong chance it may worth $2.00, we would generally recommend buying the shares (going long the stock) with a view to selling them at a higher price in the future. If XYZ was trading at $3.50 and we believed it to be worth $2.50, then assuming that we were able to borrow the stock we would recommend selling it (going short the stock) with a view to buying it back at a lower price in the future.

There can be endless reasons as to why a stock may fit into the category of being under or overvalued. Some very basic examples may include (but are not limited to):

- The company trades on a very low or very high Price to Earnings Ratio (P/E) relative to that of its peers and we would expect the P/E to eventually move towards the industry average.
- There are some pending catalysts for a share price re-rating such as increased sales numbers (generally a positive) or increased costs (generally a negative) which are not yet reflected in the share price.
- An expected change in market or industry dynamics may be positive (or negative) for a particular company and this potential change in dynamics has not yet been factored into analyst valuations.

Charting/Technical indicators for a stock would suggest that it is about to experience an appreciation or depreciation in its share price.

We may use various technical indicators in making this assessment and these will vary on a case by case basis.

For example, XYZ may look oversold on a range of indicators with an expected bounce of 15% above its current share price. In this situation we would recommend buying (going long) the stock. In the event that XYZ looked overbought, we would recommend selling the stock (going short).

A combination of the above.

When we identify an opportunity to go long or short, we will generally produce a brief research note outlining our justifications for the recommendation. We may also suggest a 'stop-loss' so that if our view is subsequently proven to be incorrect that losses can be kept to a minimum.

At such a time when our price target has been reached, or if we have any other reason for wanting to close our position, we would notify you accordingly.

Risk / Reward

The risk associated with this strategy is in the exposure to the movements of the share price. There is unlimited potential for upside when purchasing a stock, however the downside risk is also unlimited. It is for this reason that we generally recommend stocks where we can quantify the downside risks. If in our opinion, the upside potential heavily outweighs the downside risks and we can obtain an appropriate entry level then we will recommend our clients gain exposure to that particular stock.

Follow Up

As with the majority of our strategies, appropriate stop loss mechanisms need to be enforced. These stop levels can be managed for the duration of the trade and adjusted according to the relevant market conditions.

GPO Box 5392 Sydney NSW 2001 | P: +61 2 8917 2900 | www.hcsecurities.com.au | info@hcsecurities.com.au