barefoot blueprint

Issue 59 - **The Blueprint Report Card 2016** January 2017

The Blueprint Report Card

How we've almost **DOUBLED** the market in 2016 (twice)

A **'warts and all'** view of our recommendations... from the very beginning

The **HUGE changes** coming to the Blueprint in 2017

Update: Breakfree Portfolio 2016

Our Amazing Returns in **2016**

...and **2015, 2014, 2013** & **2012**

We've almost DOUBLED The Market In 2016 (Twice)

- Over the past five years our stocks have delivered a 101 per cent return.
- A 'warts and all' view of our recommendations from the very beginning.
- And the huge changes coming to the Blueprint in 2017...

"I think you're going to want to see this," said Mike, handing me a document.

I stopped what I was doing to take a look. "What's this?" I asked.

"Our results for the Blueprint this year," he explained.

I ran my eyes over the figures… and sat back in my chair.

I'd expected a good year… but these figures were … extraordinary.

A discussion followed. And Mike and I spent a long time talking about how we could explain these results to you.

But I'll tell you all about that very shortly.

Because before we talk about how we did this year, I want to talk about how far we've come in the last five years… and what's in store next.

The Big Changes In Store For The Blueprint In 2017

Five years ago, I set out to create an advisory service like no other.

The first thing I did was recruit the best investment analyst that money *can't* buy: Mike Kemp. (I call him this because he is independently wealthy and doesn't need to work for money. He does it because he is passionate about value investing.)

The second thing I did was focus on building much more than just a stock picking newsletter (though, as you'll soon read, the returns we've achieved over the past five years are nothing short of unbelievable).

See, the truth is, picking the right stocks is only a very small factor in becoming wealthy. That's why the Blueprint covers all sorts of ways to make money -- from shares, to property, to starting your own business, to good-old-fashioned money management.

Over the past five years our combined stock picks have delivered an amazing 101 per cent return. However, I get just as much of a kick out of helping people with the 'one percenters' which, when added up and compounded, can totally change your life:

Like spending a couple of months researching the new changes to Centrelink, and coming up with a plan that showed you (and your loved ones) how to earn up to $277,513 in *extra* Centrelink benefits.

Like the 10x Challenge, which has helped people make back *ten times* their annual Blueprint membership each year by switching to our fiercely independent deals. (In fact, one member saved $15,994 this year just by implementing our advice).

And like being on hand throughout the year to answer all your money questions in our live chats.

You see, the Blueprint is a family-run business, and each year we turn ourselves inside-out to make things better. That's why last month we surveyed members to see what you wanted more of in the Blueprint.

(Fun survey fact: did you know something like 90% of our members had already recommended us to friends or family? I don't mean 'would' they recommend us… I mean they told us they already had, without us even asking). You guys rock!

Your answers to that survey are behind some of the biggest changes to the Blueprint... ever.

In 2017 we'll be launching a number of brand-new features... like the Foundations Program, a short onboarding course that'll walk you through the Barefoot Steps and get you on track with your finances… or the Barefoot Boardroom, which will take things to a whole new level for more advanced members.

That's all to come in 2017.

But because we're also deadly serious about being the best stock picking newsletter in Australia, let's look at how we've performed in 2016.

In other words, were we worth the price of our subscription last year?

Here's the thing:

Most financial planners don't take responsibility for the investment returns their clients make.

They bring you in, show you a bunch of pie charts, and send you off with a telephone book of cut-and-paste compliance mumbo jumbo. Oh, and a bill for $4,000.

And most stock investment newsletters don't do an annual review.

That's because they're in the business of upselling you into more and more newsletters. They bombard you with so-called 'hot' stock tips ... dozens of them pile up in your inbox. It can be completely overwhelming.

We have just one newsletter.

We devote our life to it, and we invest our family's money in our recommendations.

And we are very, very proud of the market thrashing returns that we've achieved.

Our Amazing Returns in 2016
… and 2015, 2014, 2013 & 2012

So, did we make you money last year?

If you followed the $100k Portfolio, your answer is an overwhelming ‘hell yeah!’

But what if you used our Blueprint stocks as the starting point to make your own choices?

(And to be clear, that’s the approach we encourage).

Really, the only way to hold our bare feet to the fire is by taking into account every one of our 36 recommendations, and working out the average return across the board over the past 12 months.

So let’s do just that.

(Drum roll, please.)

In 2016, our Blueprint stocks absolutely smashed the index, with a total return of 20.9 per cent. That’s almost double the return delivered by the market (All Ordinaries Accumulation Index).

> “Our Blueprint stocks absolutely smashed the index, with a total return of 20.9%. That’s almost double the return delivered by the market”

Just to be crystal clear -- this return is based on all the Blueprint stocks we’ve recommended (other than Tassal, Resmed, Retail Food Group, Sea Link, and Adelaide Brighton, which haven’t yet dipped below our buy price).

It includes our new Blueprint recommendations for 2016: Collection House (February), ANZ (April), Select Harvests (May), UBS Ethical (September), and Telstra (November).

And it includes the five stocks we sold in 2016: Cash Converters (May), Patties Foods (September), Hansen Technologies, Corporate Travel (November), and Medibank (December).

The Large Print

Here's how we crunch the numbers:

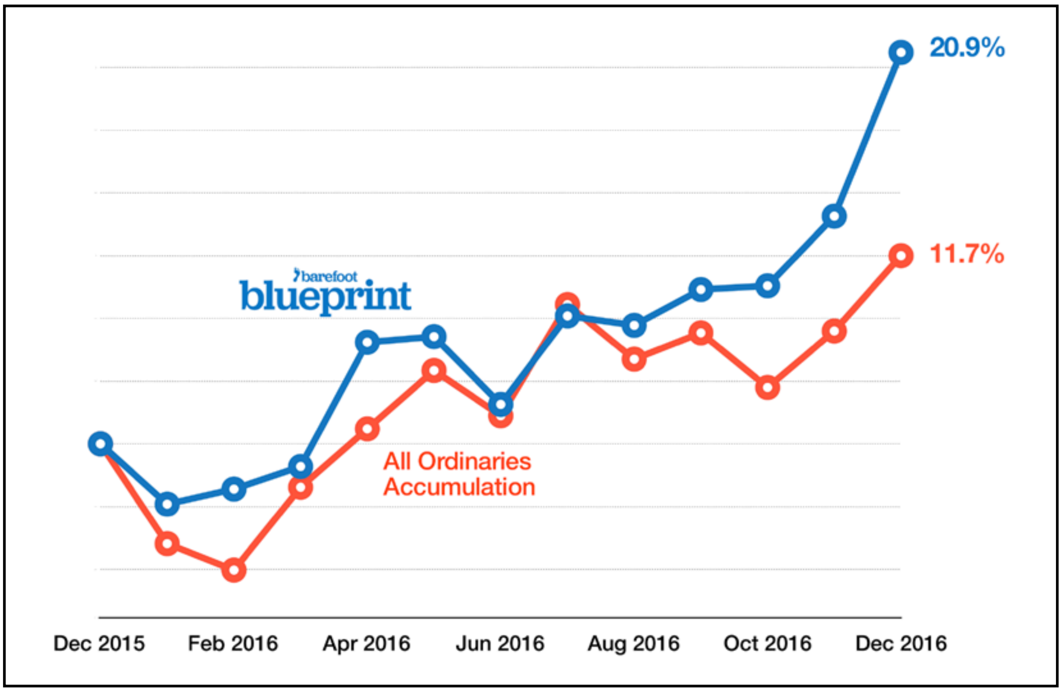
- We calculated a $2,000 ownership of each Blueprint stock as at the closing share price at the end of 2015 -- other than Tassal, Resmed, Retail Food Group, Sea Link and Adelaide Brighton, which haven't yet dipped below our buy price.
- We calculated a $2,000 purchase of each of our new 2016 Blueprint stocks from the date of recommendation: Collection House (February), ANZ (April), Select Harvests (May), UBS Ethical (September), and Telstra (November).
- The returns of the two businesses that were re-recommended this year -- Berkshire Hathaway (June) and Woolworths (July) -- have been calculated from close of trade 2015, as they were already in our portfolio at the beginning of 2016.
- The five stocks we sold in 2016 have been calculated up to the date we recommended you sell: Cash Converters (May), Patties Foods (September), Hansen Technologies, Corporate Travel (November), and Medibank (December).

We also accounted for dividends received, and made an adjustment for the Aussie dollar with US-based Berkshire Hathaway.

The final result?

The Blueprint Portfolio delivered a 20.9 per cent return for the year.

That's a substantial outperformance of the All Ordinaries Accumulation Index (our preferred measure, as it takes dividends into account), which had a 11.7 per cent gain.



A 'warts and all' look at our total returns since we began

Let me confess something:

I've been having a hard time reconciling our success since we started.

Truth be told, it's *not* normal to significantly outperform the market by the magnitude we have since we started the Blueprint.

Especially given that we aren't taking on significant risks -- like, say, loading up our portfolio with speculative stocks. If anything, our conservative valuations and margin of safety reduce the risk of making a permanent loss.

Still, I think it says something about how we run the Blueprint that when Mike came to me with the results, we spent a long time discussing how we could best explain them to you.

Fact is, if someone wrote in to me saying they'd subscribed to an investment newsletter that had almost doubled the market average ... I'd be very skeptical.

Yet that's not to say that everything we've touched has turned to gold.

We've definitely made recommendations that didn't pan out -- Metcash, Maxitrans, Cash Converters. And we list them on the Blueprint website -- at Barefoot we don't bury our dead.

And I'm almost certain we'll make recommendations like that again. As legendary investor Peter Lynch said, "In this business, if you're good, you're right six times out of ten. You're never going to be right nine times out of ten."

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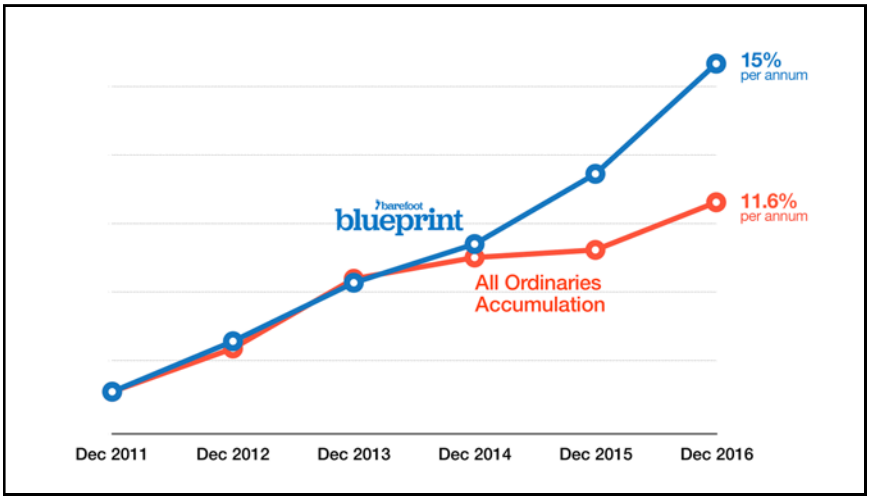
So let's now look at our track record since we started the Blueprint five years ago.

Suppose that, from the first edition of the Blueprint, you'd invested $1,000 in *every one* of our recommendations (and also acted when we recommended selling).

As at the end of 2016, you'd have made a compound annual rate of return of 15 per cent.



Okay, so at this point you may be thinking:

"So … should I just buy every single one of your recommendations?"

No, you shouldn't.

There are a few reasons why this is a bad idea:

First, you may not agree (financially or philosophically) with all our recommendations.

Second, owning too many stocks can be an administrative pain in the rumpola.

And finally, our Blueprint recommendations are intended to form part of a portfolio of investments of up to a dozen stocks (give or take).

In the past, when I'd explain these finer points to people, they'd just sit there with their mouths open, staring blankly at me. They still didn't know how to build a portfolio.

Enter the $100k Live Portfolio.

The $100,000 Live Portfolio

Three years ago, I made the decision to put my money where my mouth was.

Let's be honest. It's one thing to read about stock picks (especially in the rear view mirror like we're doing in this Blueprint). But it's another thing to see a living, breathing portfolio come to life.

So I took $100,000 of my family's money... and started building an investment portfolio from scratch.

The aim of the $100k Live Portfolio is to let you look over my shoulder and show you how an intelligently chosen portfolio compounds over time.

What's more, it's totally transparent and accountable: I alert subscribers to my plans before I do anything -- giving you five full trading days' notice before I buy or sell anything in the portfolio.

And here's the thing: most financial advisors would freak out if you asked them to share with you their personal portfolio statement (warts and all). But I'm happy to share mine with you!

Since I kicked off the $100K Live Portfolio in 2014, it's gained a thumping 43.2 per cent, versus 15.9 per cent for the accumulation index over the same period.

- Initial Budget: $100,000
- Stock Value: $122,944.86
- Cash: $20,215.10
- Current Value: $143,159.96

Mike's Report Card

I've asked Mike to give us his 2016 report card for each and every one of our current recommendations (just like at school, an 'A' means 'star pupil' … and an 'F' means 'go to the naughty corner'), as well as his thoughts on the prospects for each business going forward.

Stock	Grade	Page
Rio Tinto	**A**	37
Select Harvests	**A**	39
Tassal	**-**	41
The Reject Shop	**F**	43
UBS International Ethical ETF	**B**	45
Washington H Soul Pattinson	**D**	47
Woolworths	**D**	49

Stock	Grade	Page
SeaLink	**-**	38
South32	**A**	40
Telstra	**-**	42
Trade Me Group	**A**	44
Vanguard International ETF	**B**	46
Woodside Petroleum	**B**	48

Adelaide Brighton Cement (ASX:ABC)

2016: Investment Return: Not yet reached our buy price. **Total Return since recommendation:** Not yet reached our buy price.

Adelaide Brighton (ABC) is a wonderfully boring business. It's the second-largest cement producer in Australia, and the largest producer of industrial lime, which is critical for mining aluminium and gold. It enjoys strong margins -- which are the envy of the building industry.

What we said originally:

"While Adelaide is offering decent value right now, the current economic outlook demands that we buy with a significant margin of safety. So we're going to put ABC on our watch list".

Better Value Elsewhere

We recommended Adelaide Brighton Cement (ABC) all the way back in May 2013.

While we liked the business, we were wary of the cyclical nature of the construction industry. To cover our backside we set a strict margin of safety on the buy price.

However, after three and a half years of ABC's share price staying well above our buy up to price, there appears little chance we'll be able to purchase ABC at a price we're happy with.

Of course we're constantly looking at opportunities, and if the situation changes and we are able to buy ABC at a decent price -- you'll be the first to know. Until then we're ceasing coverage.

Ansell (ASX:ANN)

2016: Investment Return: 18.1%
Total Return since recommendation: 54.2%

Ansell's been keeping Australians safe for decades. Not only is the company a world leader in protective gloves (used in everything from medical procedures to heavy industry), it owns around 15 per cent of the global condom market.

What we said originally:

"This is a highly profitable business that is a world leader dominating all-but-recession-proof markets that has little downside risk at current prices. Ansell is not a screaming buy, though businesses of this quality rarely are. And that's not a bad thing".

Our Grade for 2016:

A solid 18.1% return for the year despite an early stumble

As far as the stock market was concerned you could say that 2016 didn't kick off too well for Ansell.

In February the company released its half-year result. Profit was down 20 per cent. On the day of the announcement the share price slumped by exactly the same amount.

Investors bolted for the exits but, at Barefoot, we took a different view. Here's what we said at the time:

"There's no evidence that Ansell's long-term prospects have changed. The share price drop was an overreaction. We see it as a buying opportunity."

So what's been the outcome since then? Ansell's share price ended the year 67 per cent higher than that February low.

In terms of operational news, there's not a lot to report. Occasionally I'll describe a company as a "quiet achiever". Ansell certainly fits that description. It just gets on with its business without too much fuss.

Prospects for 2017

Over 90 per cent of Ansell's revenue comes from overseas. Which means that the stuff Ansell sells is paid for in foreign currency which is then converted into Aussie dollars (to pay profits to shareholders). The Aussie dollar has been falling against the US dollar since the company last ruled a line under the books. If that trend continues into 2017 then it should deliver a tailwind for profits.

*If you already have Ansell in your portfolio we recommend you **HOLD**.*

*If you want to own ANN, wait for the opportunity to **buy below $21.00.***

Recommendation: Buy below $21.00

ANZ Bank (ASX:ANZ)

2016: Investment Return: 41.1%
Total Return since recommendation: 41.1%

ANZ was our first (and to date, only) bank recommendation. Our feeling was that the banks, while solid companies, had long been too expensive to consider as investments. In fact, share prices of the big four banks got so high in early 2015 that they started breaking records, as investors bid their prices up to levels never seen before. But then things changed. Prices started to collapse throughout the remainder of 2015 – and that's when we started to get interested in buying.

What we said originally:

"The best banking bargain - by a mile. ANZ is the 'labrador' of the banking world: steady, dependable, shouldn't throw up too many surprises, just not particularly popular at the moment. It's a real 'double your money in seven years' stock. With a dividend return like this, it doesn't take much capital growth to get good overall returns."

Our Grade for 2016:

With a 41.1% return, it was one of our best performing stocks for 2016

Early in 2016 the banks were copping a caning in the financial press. Story after story was suggesting that dark times were ahead for the big four banks. We ignored the press. Instead we were busy watching the price to book (P/B) ratios for each of the banks (the P/B ratio is an important measure of value, useful when sizing up an investment in a bank).

At the time ANZ's P/B ratio was becoming very attractive. It was approaching levels not seen since the depths of the Global Financial Crisis (which has since proved to be a great time to have bought bank shares). The value became so compelling that ultimately the investment decision was a no-brainer. In the April Blueprint we slapped a buy recommendation on ANZ.

Prospects for 2017

When new CEO, Shayne Elliott, took over the reins at ANZ at the start of 2016 he immediately set about simplifying the business. He's focusing on those operations that should deliver the best returns for shareholders. And he's publicly stated that he's becoming more conservative on lending … which is a very prudent thing to do.

But despite this renewed business focus, shareholders shouldn't expect the share price to lift in 2017 by as much as it did in 2016. That's because there are two things that drive share prices: the real (financial performance) and the unreal (sentiment). Sentiment is short term. It's manic. The 2016 lift was largely due to a shift in sentiment and, for the moment, that's over.

*If you already have ANZ in your portfolio we recommend you **HOLD.***

*If you want to own ANZ, wait for the opportunity to **buy below $24.00.***

Recommendation: Buy below $24.00

ARB
4X4 ACCESSORIES

ARB Corporation (ASX:ARB)

2016: Investment Return: 11.3%
Total Return since recommendation: 66.2%

ARB started out forty years ago when founder and former CEO Tony Brown welded his first bull bar in his Melbourne garage. Today, it's a billion dollar Aussie-based business, with manufacturing facilities in Thailand, and it ships a gob-smacking range of 4WD parts and accessories into nearly one hundred countries across the globe.

What we said originally:

"ARB is durable and practical… just like the products it makes. The company has an eye-popping return on equity, which puts it in a unique group of quality businesses: Its 10-year average is 25.7 per cent".

Our Grade for 2016:

An acceptable return in 2016 largely in line with the general market

We delivered two messages throughout 2016 about ARB:

First, it's a solid business. It has no debt (which we love) and it's struggling to keep up with demand for its auto accessories and bull bars (can't complain about that either). But it's the second part of our message that's stopping us from buying any more ARB shares at current stock market prices.

And that second part to the message is the slowing growth of earnings per share (EPS). Let's explain:

Over the past 20 years ARB's management have been continually reinvesting money back into the business at great rates of return.

It's resulted in an explosive share price – up 12,000 per cent over that time. But the all-important measure of that success, growth in earnings per share (EPS), has stalled. In fact it's only grown, on average, by a meagre 2.8 per cent per year over the past five years. And that's largely because the rate at which management have been reinvesting spare money back into the business has fallen. In summary, we believe that the growth story is all but over.

Prospects for 2017

ARB has morphed from being a stock market darling into what is now best viewed as a stable, dependable business. There's nothing wrong with that - it's just part of the normal business life cycle. But it does mean we'd be surprised to see any meaningful lift in the share price in 2017.

Recommendation: Buy below $10.00

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Australian Foundation Investment Company (ASX:AFI)

2016: Investment Return: 0.84%
Total Return since recommendation: 69.9%

It's not just a great beginner stock, AFIC is also one of the best ways to get an instant diversified share portfolio. There's no Wall Street wheeling and dealing going on inside AFIC headquarters -- since the 1920s, the investment strategy has remained the same. Namely, to buy good quality shares, and hold them for the long term.

What we said originally:

"It's been around for eighty years, has an impeccable track record, and has some of the sharpest investment brains in the business running it, but best of all, if you ask your financial planner about it, they'll stare at you blankly".

Our Grade for 2016:

A sub par year

AFIC was the first investment we recommended right back when we started the Blueprint. In the last five years it's delivered a total return of 69.9 per cent. However this year, the premium that investors have historically been prepared to pay for AFIC's underlying share portfolio has narrowed. All things considered, this could be a good buying opportunity.

Prospects for 2017

We see AFIC as a proxy for the broader market. While we don't know what the share price will be next year, we're confident in 10 years it will be much higher than it is today. Over the last ten years AFIC has (slightly) outperformed the general market, and charged ultra-low fees to boot. Scott continues to hold his shares (and reinvest his dividends).

Recommendation: Buy at Market

BERKSHIRE HATHAWAY INC.

Berkshire Hathaway (NYSE:BRK-B)

2016: Investment Return: 23.8% ($AUD)
Total Return since recommendation: 194.0% ($AUD)

Regular Blueprinters won't need an introduction to Berkshire Hathaway. Newer members might be wondering why a US company appears in an Australian investment newsletter.

Let's just summarise by saying Berkshire Hathaway is one of the most successful investment companies of all time, and the baby of super investor Warren Buffett, who has used it as the vehicle to create his US$74.2billion fortune.

Berkshire Hathaway is one of our top performing companies and after making 143 per cent on the stock following our initial recommendation in May 2012, we followed it up with a re-recommendation in June 2016.

What we said originally:

"Over the past few years, I've made Berkshire my biggest single holding. So it's time for me to convince you that you should buy some too. But before you cry 'I've missed the boat, Barefoot', hear me out...

Berkshire Hathaway is a holding company for dozens of other businesses which in total are worth more than the price the market is putting on Berkshire right now. Today the greatest investor in the world thinks his business is very, very cheap. Who are we to argue?"

Our Grade for 2016:

Another great year from the 86-year-old master.

Warren Buffett really wanted his close friend Hillary Clinton to win the US election. So much so that during the campaign he publicly attacked Donald Trump for not disclosing his tax returns -- and Buffett rarely gets political.

Still, Trump's win put a rocket under his BRK, sending the shares soaring by 10 per cent to a new record high, in the weeks after the election … adding another $US11 billion in 2016 to Buffett's net worth. The stock ended the year up 23.4 per cent, outperforming the broader US market.

Prospects for 2017

Berkshire is an all-American conglomerate that will benefit from President Trump's efforts to stimulate the US economy. It's currently trading on the high side of its long-term valuation, but both Scott and I remain happy shareholders.

Recommendation: Buy below $147.00

BWP Trust (ASX:BWP)

2016: Investment Return: 0.03%
Total Return since recommendation: 95.3%

BWP Trust owns a string of the big green Bunnings warehouses, and although investors in BWP don't own the hardware business, they do pick up healthy rental returns from the operator.

What we said originally:

"There's nothing exciting about BWP Trust — except the returns. Using excruciatingly conservative Barefoot forecasts, we came to the conclusion that is was possible to almost triple your money over the next 10 years".

Our Grade for 2016:

The share price was dragged down by factors outside its control: the threat of rising interest rates.

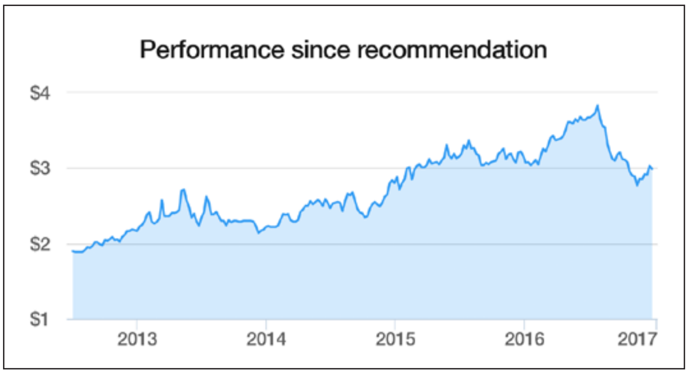
BWP Trust has grown its distribution (think of it as a dividend), on average, by more than seven per cent per year for the past five years. In other words, BWP has been growing at rates way higher than Australia's inflation rate (which is currently 1.3 per cent). So why has the share price fallen by 24 per cent over the past five months?

The answer is simple: interest rates. Interest rates are rising and will probably keep on rising. And no sector of the stock market is more sensitive to changes in interest rates than Real Estate Investment Trusts (REITs). Higher interest rates mean investors demand higher income (yield) from their property investments.

Yield is calculated by dividing the annual dividend by the share price. So higher yields are achieved when share prices fall. It's happening to all the REITs. The S&P ASX REIT Index, which measures the combined performance of the Aussie REITs, is down by a similar amount to BWP.

Prospects for 2017

If you are a share price junky who expects your stocks to always be climbing, then neither BWP nor our other property play HPI are likely to deliver you that sugar hit anytime soon. But they will deliver strong dividends over time. BWP has a rock solid tenant in Wesfarmers, which will deliver reliable long-term rental income.



Recommendation: Buy below $2.75

carsales.com.au

Carsales.com (ASX:CAR)

2016: Investment Return: 0.37%
Total Return since recommendation: 23.4%

Carsales.com boss and founder Greg Roebuck started the company on a shoestring. Now, it's Australia's biggest online car market, and also dominates sales of boats, trucks, bikes and caravans. The company's expanding offshore by investing in overseas businesses, as well as moving into the Australian finance market.

What we said originally:

"As you might expect for a company as successful as CarSales, its financial performance is nothing short of sensational. Quite simply, it's one of the most profitable businesses in Australia, with a return on equity of an eye-popping 50 per cent".

Our Grade for 2016:

A flat return in 2016, significantly lagging the general stock market

CarSales is hell bent on expanding its international footprint. Outside Australia it already has businesses in New Zealand and throughout Asia and South America. CEO, Greg Roebuck believes the overseas investments could make up 50 per cent of the company's revenue in coming years. In keeping with Roebuck's expansion plan CarSales announced last March that it had bought 83.3 per cent of Chile's biggest online car classifieds website – Chileautos.

But 2016 also exposed some cracks in another of CarSales' international business ventures – its 20 per cent holding in iCar Asia, South East Asia's largest car classifieds business. iCar Asia has been struggling financially. CarSales was subsequently forced to write down the value of its holding in iCar. Fortunately for shareholders, it's all small potatoes.

Prospects for 2017

The CarSales growth story isn't over yet. Expect further international acquisitions — but they need to be very selective in what they buy. Roebuck understands the business well, but the iCar Asia stumble is a warning to investors. Don't get us wrong — CarSales is a fantastic business - but we'll stick to our conservative recommendation of buy below $9.50.

Recommendation: Buy below $9.50

Cash Converters (ASX:CCV)

2016: Investment Return: -17.1%
Total Return since recommendation: -57%

When we delivered our most controversial recommendation ever (in July 2013), Cash Converters was successfully flogging second-hand goods from 710 shopfronts across 21 countries. It was a tried and true business model, with a 30-year history. But it wasn't pawnbroking that got Cash Converters into hot water, it was payday lending -- and in May, we recommended subscribers sell their shares in CCV.

What we said originally:

"I'm recommending a business that I'd never personally use, much less invest in - for ethical reasons. Don't let that sway you though. Mike hasn't been (he's a shareholder)".

Our Grade for 2016:

The CEO Stopped Taking Our Calls...

The government has deservedly cracked down on payday lenders. In August 2015 Scott spoke to Assistant Treasurer Josh Frydenberg about the changes, and then followed up with the CEOs of our two fringe financiers, Thorn Group and Cash Converters. As a result we sold Thorn Group, and locked in a 94% gain (since then Thorn's share price has slid 24 per cent).

We should have sold Cash Converters at the same time. Instead, we chose to believe the assurances of CEO Peter Cumins -- a pioneer of the payday lending industry -- who was adamant that the business would not only weather the current storm, but it would prosper.

After that things went from bad to worse for the company. Not only has Cash Converters kept shareholders in the dark, Cumins was not returning our phone calls. Quite simply, we lost faith in the management.

So, we changed our "hold" recommendation to a "sell" in May when we realised that mounting issues were unlikely to be resolved any time soon. The sale locked in a 57 per cent loss - clearly our worst single stock performance to date. The stock price has since fallen by a further 22 per cent.

Recommendation: Sold

challenger

Challenger Limited (ASX:CGF)

2016: Investment Return: 32.6%
Total Return since recommendation: 67.7%

Challenger is one of Australia's largest fund managers, and has carved itself a profitable niche in the sale of retirement income products. With $1.3 trillion in retirement savings maturing in the next twenty years, Challenger is well-placed to sell its annuity products to an ageing (and in many cases, highly security-conscious) army of baby boomers.

What we said originally:

"Every year, Challenger sells more annuities than all its competitors combined - and I think that's just the beginning".

Our Grade for 2016:

With more and more Baby Boomers retiring it's got a great future

Challenger's business is pretty stable – investing money and delivering retirement streams called annuities to retirees. Yet in February its share price plummeted to a low of $6.58. And by the end of the year it had climbed by 71 per cent to $11.24. Something big must have happened in 2016, right? So what was it? The answer is…..nothing. Challenger is living proof that day-to-day share price movements should be ignored when it comes to delivering information about your stocks.

Prospects for next year

The future looks bright for Challenger, the biggest provider of annuities in Australia. When we recommended the business, we said annuities didn't figure in the retirement plans of many people. That's all changing -- the rockier financial markets get, the more people look for guaranteed income options.

In 2015, the government gave Challenger a free kick, announcing plans to require all default superannuation funds to include an annuity option. That's not to mention that over the coming decade baby boomers — the wealthiest generation in history — will be spending their retirement savings. That's five million boomers with $1.3 trillion to spend on retirement income products. Challenger looks set to have another bumper year in 2017.

Recommendation: Buy below $7.00

Coca-Cola Amatil (ASX:CCL)

2016: Investment Return: 13.6%
Total Return since recommendation: -4.8%

It's one of the world's great brands, and the Australian arm of Coca Cola has a stranglehold in the local soft drink market. Recent years have been a challenge though. Increasing competition, and changing consumer preferences have taken some of the fizz out of Coke.

What we said originally:

"If you believe that people will continue drinking Coke well into the future (and we think they will), it's worthwhile buying - even though it's not a screaming buy".

Our Grade for 2016:

Surprised? Don't be. CCL had a better year than was expected

After its share price hit an all time high of $15.40 a few years back, CCL has been a pretty ordinary performer. CEO, Alison Watkins stepped into the top job in early 2014 and was awarded the difficult task of turning things around.

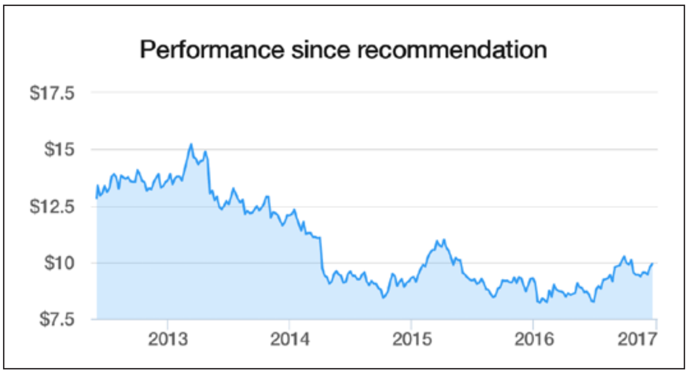
As we reported in September (following the half-year financial results) Coke has been a company travelling at two speeds:

"Its Indonesian and PNG markets are going gangbusters, increasing by 65 per cent for the half year while its Aussie business, which accounts for two-thirds of Coke's earnings, is as flat as a two-day-old Coke".

But we believe that a look back at 2016 in the future may show it to have been the turning point.

Prospects for 2017

Over the short to medium term Watkins is targeting earnings growth in the mid single digits. That pretty much justifies the current share price. Her work is really cut out to return things to the glory days. But, if she can, expect further upside in the share price.



Recommendation: Buy below $10.00

Collection House (ASX:CLH)

2016: Investment Return: -3.3%
Total Return since recommendation: -3.3%

Collection House is one of the country's leading debt collection businesses. And with Australians shouldering some of the highest household debts in the world, there's plenty of money to be made from the debt collection industry. Despite a rocky start to the year, we hope new CEO Anthony Rivas will be able to mirror the success of star competitor Credit Corp.

What we said originally:

"It pays a healthy dividend, has strong cash flows, and a leadership team with decades of experience under their belts. But remember, this is a small company and carries more risk than investing in a 'blue chip'. The share price of small companies is volatile, which means they can go up quickly, and go down just as quickly."

Our Grade for 2016:

Though the share price is picking itself off the floor after being king hit in February

Collection House has given us an excellent investment case study this year: the share price cratered by almost 40 per cent after CEO Matthew Thomas abruptly announced he was leaving the business, and the business downgraded its profit forecast. As the share price was in freefall, we got Thomas back on the line, and made the decision to double down and buy more shares -- as the stock hit three year lows. Collection House has since rebounded by 57 per cent.

Prospects for 2017

New CEO Anthony Rivas certainly has his work cut out for him. If he can squeeze more dollars from his debt ledgers -- and get greater efficiency from his phone jockeys -- Collection House has enormous upside in 2017 and beyond.

Despite its dismal performance for 2016, Collection House is currently one of our best buys, with excellent long-term upside. Our Recommendation is to **buy below $1.60.**

COLLINS FOODS LIMITED

Collins Foods (ASX:CKF)

2016: Investment Return: 46.3%
Total Return since recommendation: 473.6%

Collins Foods is Australia's largest operator of KFC restaurants, with a stranglehold on the Queensland and Western Australian markets. It also owns the Sizzler chain, and is dabbling in the sausage market through a new venture called Snag Stand.

What we said originally:

"Collins Foods is an incredibly strong business, with an incredibly strong brand. Opportunities like this come around all the time -- but rarely at such a good price."

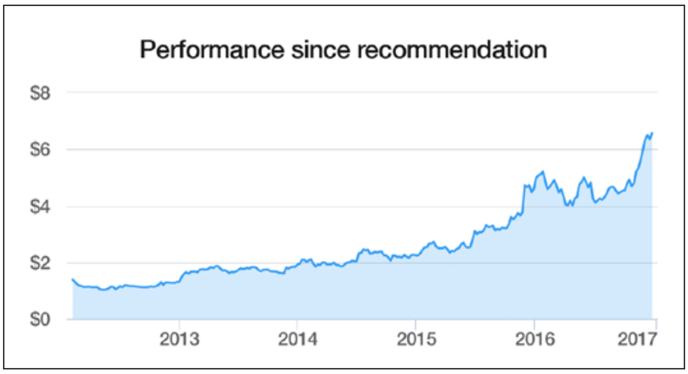
Our Grade for 2016:

Another strong year for our best performing Blueprint stock

For Collins the theme for 2016 has been "expansion". In May the company forked out over $25million to buy a further 13 KFC restaurants in NSW and Victoria (with plans to open more). And in October they announced that they'd made their first steps into Europe by buying 11 stores in Germany (with plans to open more). When we first bought Collins back in February 2012 it owned 119 KFC outlets. Now it owns 202….and counting. And in terms of financials both the full year and half-year profit results were solid (up 22.3% and 17.2% respectively).

Prospects for 2017

In November (2016) the company outlined its plans to open four to five Aussie restaurants per year over the next two years, increasing to ten per year after that. Further expansion into Germany will also occur with an additional two restaurants opening in the first half of 2017. This is how the company will grow – buy acquiring and opening new stores. In terms of share price gains in 2017 - I'd be surprised if we see a repeat of 2016's stellar performance.



Recommendation: Buy below $3.90

corporate travel management

Corporate Travel Management (ASX:CTD)

2016: Investment Return: 27.5%
Total Return since recommendation: 295%

It's been just over twenty years since 25-year-old Jamie Pherous decided to open his own travel agency. Now, it's a billion-dollar company, with operations across Asia, the USA, and a growing footprint in Europe.

What we said originally:

"Corporate Travel Management's share price has increased four-fold in less than three years. Yet we believe the next few years could potentially be even more lucrative for investors".

Our Grade for 2016:

A great investment that ultimately became priced for perfection

When we first recommended Corporate Travel Management in our August 2013 Blueprint we received a number of emails from subscribers telling us that we'd missed the boat. They reckoned that because the share price had already risen strongly there wasn't much growth left. We bought it for $4.31, collected 3 years of dividends, and sold it in November for $16.50 for a total 295 per cent return.

Our reasons for selling were clear. We were getting nervous about CEO, Jamie Pherous' ability to continue expanding the business at such a rapid clip without stuffing up. Relying on the acquisition of foreign companies as a major source of growth can be a dangerous game. Eventually big dollars can get shelled out to buy a pup. What's more the growth eventually slows for any company and when it does that translates into the share price getting hit. We acknowledge that time might show us to have pulled out of our investment in CTD too early but no one should be complaining about a 295 per cent return. We don't like taking too many risks and an inflated share price spells risk with a capital "R".

Recommendation: Sold

Credit Corp (ASX:CCP)

2016: Investment Return: 77.3%
Total Return since recommendation: 92.3%

Credit Corp is a standout leader in the multi-billion-dollar debt collection industry. For years, the company has been riding high on Australia's debt binge (and profiting when the inevitable hangover strikes).

What we said originally:

"Credit Corp's 100,000 + clients on regular payments give the company a strong base for continuing as market leader. Their nearest competitor, Collection House, generates half the return on equity, and is carrying a significant amount of debt".

Our Grade for 2016:

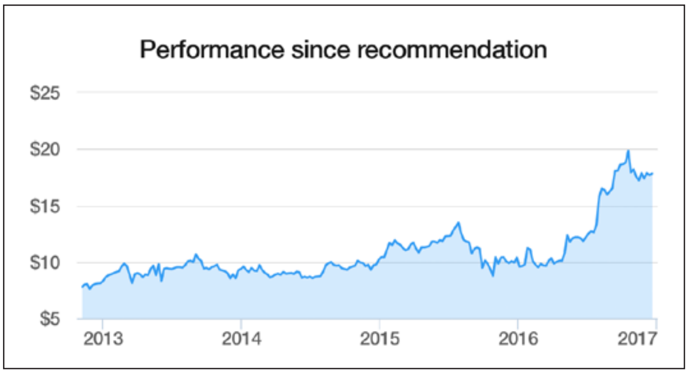
CCP delivered investors a 77.3 per cent return in 2016

We first featured Credit Corp in our November 2012 Blueprint. But it wasn't until 3 years later (when the price dipped temporarily below our buy price) that we had our first opportunity to buy it. The timing now looks to be spot on with the share price more than doubling since that November 2015 low.

In September 2016 Credit Corp announced that it had purchased debt collection company National Credit Management Limited (NCML) from Thorn Group for $22.6 million. It looks like a good deal for Credit Corp since, for their money, not only do they get an ongoing business with 90 staff and 120 client agency agreements but also they score a debt collection book with more than $20 million in outstanding debts. It's a bargain basement buy with no goodwill premium built in.

Prospects for next year

In November CEO Thomas Beregi upgraded CCP's profit guidance for full-year 2017 to $53–$55m. That would see a lift in earnings per share (EPS) of between 15 and 20 per cent over the 2016 result. And that's on top of a lift in EPS of 17 per cent over 2015. In terms of future share price moves we see CCP as presently fully priced rather than underpriced. So 2017 is unlikely to see the lift in the share price that 2016 did (afterall you can't repeat a 77.3 per cent move in the share price every year!).



Recommendation: Buy below $10.00

DECMIL

Decmil Group (ASX:DCG)

2016: Investment Return: 2.9%
Total Return since recommendation: 8.6%

Decmil is making the transition from mining services company to a broader-based engineering business.

Five years ago, nearly all of Decmil's revenue came from the mining sector. Today, the resources boom is over, so Decmil is winning contracts in new areas (like government funded schools, roads, bridges and airports), and has even branched out into telecommunications infrastructure.

What we said originally:

"It's unloved by the market, and ignored by the big fund managers. It's also dirt-cheap. For these reasons, we believe it's exactly the sort of business value investors would get excited about".

Our Grade for 2016:

Decmil ended 2016 pretty much where it started

It's been a bumpy ride for Decmil shareholders over the past 12 months: the share price has swung from a low of 65.5 cents to a high of $1.31. The reason for the volatility is the long and painful transition that Decmil is making from being a mining services company to a (lower margin) engineering company.

Decmil reported a full-year loss of $58 million, after they made an accounting write-down of their mining camp in Gladstone. That was to be expected. However they are replacing the hole in their earnings by chasing other engineering and management contracts. And they're having success -- revenue for the current year (at $400 million) is set to come in 25 per cent higher than last year.

Prospects for 2017

Decmil is in the process of reinventing itself. Each time it wins a contract -- no matter how big or small -- the company trots out an announcement to reinforce to the market that it's succeeding in the transition to a broad based engineering firm. We think 2017 may be the year that investors sit up and take notice.

Recommendation: Buy below $1.00

FLIGHT CENTRE®
The Airfare Experts

Flight Centre (ASX:FLT)

2016: Investment Return: -17.7%
Total Return since recommendation: 5.6%

A great Australian success story, still being run by the founder, Graham Turner. Since he listed his business on the stock exchange twenty years ago, shareholders in the float have seen their investment grow fifty-fold. Now, Flight Centre employs more than 20,000 people across the globe.

What we said originally:

"'I'm going to double Flight Centre in the Next Five to Seven Years', said founder Skroo Turner. Honestly, if any other CEO made that remark I'd take it with a grain of salt (or two). However, for 30 years Skroo has done just that (and more)."

Our Grade for 2016:

"Skroo" needs to pull a rabbit out of the hat

Let's start with the good news: Flight Centre (FLT) had a record year in terms of sales, booking in excess of $19 billion globally. The problem is that airline tickets are being sold at dirt-cheap prices -- so FLT is getting more revenue but that's not translating into higher profits.

The really big news for Flight Centre this year was their plans to finally ramp up their online offering, after years of Skroo Turner avoiding the space. Currently 95 per cent of Flight Centre's sales come from people sitting down with one of their travel agents. Skroo aims to take internet sales to 10 per cent of revenue within the next five years. Or in other words, he's setting out to build a multi-billion dollar online business.

And to be blunt, Flight Centre needs to do something -- quickly.

The clock is ticking, and Flight Centre's old school travel agent model is at risk of being upended by the likes of Airbnb and a host of other start ups.

Airbnb is not even ten years old, but in that time it's become one of the largest accommodation providers in the world: last year they celebrated their 100 millionth guest! If they're not competing with Flight Centre yet -- they soon will be.

Prospects for 2017

Skroo Turner has devoted his working life to coming up with innovative ideas to help build his business. But there's been nothing before like the current digital threat to the traditional travel agent's face-to-face business model. It's a strong test of Skoo's business acumen. He's facing the threat head on by developing Flight Centre's digital offering. Let the battle begin.

Recommendation: Buy below $36.00

HANSEN
TECHNOLOGIES

Hansen Technologies (ASX:HSN)

2016: Investment Return: 18.3%
Total Return since recommendation: 374%

When we originally recommended family-run software company Hansen, it was (in sharemarket terms at least) a minnow. Although it had been around since the late 1970s, most investors had never heard of the company. But the market's starting to wake up. Now Hansen's worth more than $600 million, with offices in Australia, the USA, China, South America and the United Kingdom.

What we said originally:

"Investors are pricing Hansen as if it will face low growth for years...but we simply don't agree. If growth returns to even a fraction of what it's been for years, we're looking at a share price well above $1.00 and beyond".

Our Grade for 2016:

A great business that was priced for perfection. It was time to lock in profits.

Hansen is one of our all-time best performing stocks, delivering us a 374 per cent return. And with good reason: over the past decade Hansen has had explosive growth. However, massive rates of growth are rarely sustainable over the long-term. And when growth slows, the share price usually gets hit. We have no idea when that will be of course. However, we made the decision to lock in a very healthy profit and look for the next Hansen!

Sold for a 374 per cent Profit.

Hotel Property Investments (ASX:HPI)

2016: Investment Return: 18.6%
Total Return since recommendation: 62.3%

Pubs. Run by a supermarket chain. That's what you get with an investment in HPI. Actually, you're not getting a stake in the hospitality business - what you get is part ownership of a string of hotel properties, mostly in Queensland, leased from the trust by Coles.

What we said originally:

"The best property play we've found in years...With an A-grade tenant, long-term leases, 100 per cent occupancy and a return of 8 per cent, we see this as a decent alternative to relocate some of the money you may have sitting in a longer-dated fixed term deposit".

Our Grade for 2016:

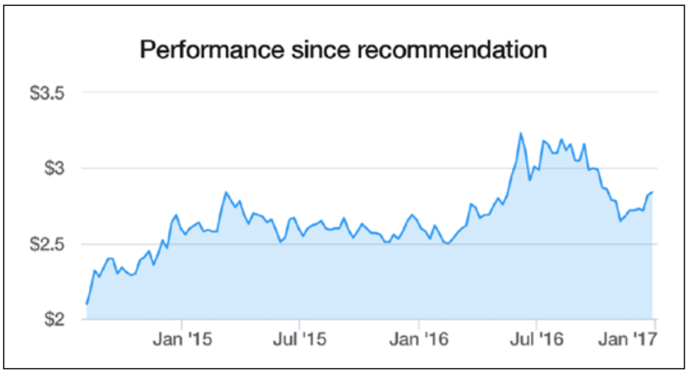
This year it outperformed BWP

Generally, property trust results are pretty boring -- after all, we're basically talking about collecting rent. This year HPI certainly did that, and then some: total distributions for the year were up 12 per cent to 18.3c per unit -- a juicy increase in a low-inflation, low-interest-rate environment. Yet HPI also unveiled a full-year profit that was up 70 per cent on last year, off the back of the value of its pub portfolio increasing.

Prospects for 2017

Look, if you are a share price junky who expects your share prices to always be climbing then HPI (or our other property play, BWP) is unlikely to deliver you that sugar hit anytime soon, because of the threat of rising interest rates. However they will deliver strong dividends over time. And based on HPI's current yield of 6.5 per cent, it's one of our best buys right now.

We recommend you **buy below $3.00.**



Recommendation: Buy below $3.00

Insurance Australia Group (ASX:IAG)

2016: Investment Return: 14.2%
Total Return since recommendation: 16.3%

Insurance Australia Group is a leading Aussie insurer, with a portfolio of great brands and a long history. But it wasn't until Warren Buffett bought into the company that we really took notice.

What we said originally:

"If you follow our recommendation, you will get exposure to one of the world's most enduring industries, run by an experienced team with the financial backing of not just the world's best investor, but the biggest insurance conglomerate on the globe".

Our Grade for 2016:

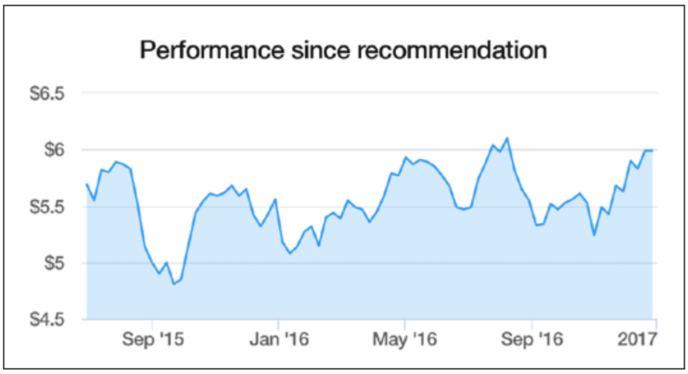
This year the share price grew, but so too did the expectations on Harmer to deliver

IAG boss, Peter Harmer, believes that operational changes will lift earnings per share by an average of 10 per cent per year for the next three to five years. He's confident that he can deliver on this promise, and frankly he needs to: the expectation of success is largely built into IAG's current share price.

Prospects for 2017

The prospects for an insurer always come down to an actuarial assumption: whether it rains, hails or shines will have a big impact on their results.

This year IAG is aiming to deliver an insurance profit margin in the range of 12.5 to 14.5 per cent (essentially it's total profit divided by the premium income it earned over the same period).



Recommendation: Buy below $6.00

Medibank Private (ASX:MPL)

2016: Investment Return: 35.4%
Total Return since recommendation: 46.7%

Medibank Private is Australia's largest private health fund, owning nearly one third of the market. It was flogged off by the former owners, the Government, in 2014, making it the biggest stock exchange float of the year.

What we said originally:

"We think Medibank Private is worth a punt. And when we say punt, we're talking about backing Medibank's management's ability to cut its costs over the next five years".

Our Grade for 2016:

I feel better now!

The main driver behind our recommendation was Medibank had been a bloated government-run business. Our theory went that management could boost profits simply by cutting costs. We were right, they were excellent at cutting costs.

However they were less successful in lifting revenues. Really, it's an industry-wide problem. However with flat earnings, and a dreary outlook (confirmed by the company), our new valuation for Medibank comes in at just $1.50 per share. So we were happy to book a 46.7 per cent profit on this investment.

Sold for a 46.7 per cent Profit.

Monash IVF (ASX:MVF)

2016: Investment Return: 33%
Total Return since recommendation: 57.5%

Around one in six Australian would-be parents now use assisted reproductive services -- making IVF a $600 million per year industry. Monash is a pioneer in the industry, and one of the major players, with a growing presence in the Asian market.

What we said originally:

"Simply put, we believe that Monash IVF is a world-class market leader -- with extremely talented people and a reputation that gives it an unfair advantage over the other players".

Our Grade for 2016:

It was a strong 2016 result but the competition's hotting up

Monash has had a good year. Since mid January the share price has lifted by a very healthy 47 per cent. In October they reported a cracking 35 per cent lift in profit, and they managed to pay down their debt levels (which were pretty conservative to begin with).

Prospects for 2017

Monash aren't likely to repeat their recent stellar run in 2017. First, competition is hotting up and Monash is actively cutting costs to maintain its competitiveness. Second, the number of IVF treatments is trending down slightly across the industry. Still, we believe that Monash is the best in the business -- and there will always be a market for the very best.

Recommendation: Buy below $1.80

1300 Smiles (ASX:ONT)

2016: Investment Return: 7.4%
Total Return since recommendation: 26.3%

Queensland dentist Daryl Holmes is an unashamed Warren Buffett fan. So after running his own practice for a while, he started looking for other dental businesses he could buy at bargain prices. Now, badged under the 1300 Smiles brand, he runs a company valued at $160 million.

What we said originally:

"Since they listed in 2005, share prices are up 500 per cent … and we believe they're just getting warmed up".

Our Grade for 2016:

1300 delivered a grin this year rather than a smile

The year started off well for 1300 Smiles with the announcement of a record half-year profit. Profit and dividends were both up around 20 per cent, despite revenue only growing 3 per cent. And the full year profit (announced in August) came in with a lift of 16 per cent over the prior year. However, despite the solid news (and also the lack of any bad news), the share price ended the year pretty much where it started. 2016 delivered a modest total return of 7.4 per cent.

Prospects for 2017

Let's face it -- dentistry is a pretty steady, reliable business. Managing Director Daryl Holmes has made 1300 Smiles even more dependable with its total absence of any form of debt (we told you he's a Warren Buffett fan). We expect 2017 to hold as few surprises as 2016 did. And that's just fine with us.

Recommendation: Buy below $6.00

Orica (ASX:ORI)

2016: Investment Return: 17.3%
Total Return since recommendation: -14.1%

Orica's one of those companies the mining industry just can't do without. Miners need explosives, and Orica produces more explosives than anybody else -- controlling over a quarter of the world market.

The company provides explosives, chemicals and mining services across more than 50 countries.

What we said originally:

"Orica's the perfect 'pick and shovel' company. It avoids the risky boom and bust of mining by selling miners, or in this case mining companies, what they can't do without".

Our Grade for 2016:

The long awaited turnaround looks like it's begun

Just over a year ago Orica CEO, Alberto Calderon, described the industry as enduring the toughest period in more than two decades. But he suggested that his cost cutting and efficiency changes would kick in during the 2016 financial year, with bigger gains expected in 2017.

And we don't reckon that's simply corporate spin - within two days of the 2016 interim profit release Calderon opened his wallet and spent $100k of his own money buying Orica shares. It was a timely purchase. He's since been delivered a 32 per cent return on that investment.

Prospects for 2017

Orica provides the explosives that shift the dirt for mining companies around the world. And because the prices of iron ore and coal (and pretty much every other mineral you want to name) have rebounded strongly in 2016, dormant mines will be pulled out of mothballs and those still operating will likely lift production. This will provide a lift to Orica's earnings. Orica spent an extended period of time in our Blueprint list of best buys. Hope you got set because it's now moved above our "Buy below" price of $16.00.

Recommendation: Buy below $16.00

Patties Foods (ASX:PFL)

2016: Investment Return: 71.7%
Total Return since recommendation: 34%

From a tiny, family-run bakery in a Victorian country town half a century ago, Patties has grown to become the world's largest producer of meat pies.

Although the Four'N Twenty brand is the mainstay, Patties has been branching out into the 'gourmet' market, with Herbert Adams pies and a range of frozen desserts.

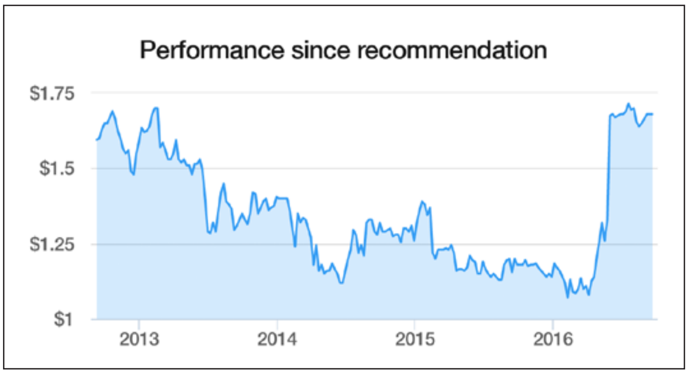
What we said originally:

"It's not the sexiest stock, however we like its strong Return on Equity and its consistent dividends".

Our Grade for 2016:

Over and out!

Patties started the year with the stench of the frozen berry fiasco, its share price had slumped to as low as $1.01. Yet there's opportunity in a crisis, and what we didn't know was that private equity firm Australasian Foods (Bidco) were running the numbers on Patties, and they would eventually end up agreeing to take over the company for $1.65 per share.



Recommendation: Sold

QBE

QBE Insurance (ASX:QBE)

2016: Investment Return: 2.7%
Total Return since recommendation: 3.5%

QBE is not just Australia's largest insurance company, it's one of the biggest in the world. Even though the share price has been bashed and bruised in recent years, the company is an ASX top 20 stock, worth more than $17 billion.

What we said originally:

"Yes, some bad outcomes are possible. But QBE is so cheap - down 62 per cent from its GFC peak, that we believe the worst scenarios are already reflected in the share price".

Our Grade for 2016:

With a flat return in 2016 it underperformed the market

Things could have been a lot worse. Just weeks ago QBE's share price was sitting at a 13-year low. But it finished 2016 close to where it started after staging an amazing 35 per cent recovery since mid November. What then was all the excitement about?

In 2016 the share price was first hit in June on fears that Britain's announced departure from the European Union would impact its UK business operations. It copped a second whack in August when the half-year profit result came in at half that of the year before.

At the time we wrote:

"QBE is currently selling on the stock market for less than book value. That means it's trading at less than what you could replicate the entire company for."

In other words it was dirt cheap. It seemed that the market worked that out as well. Without any further announcements or surprises the share price proceeded to bounce by an impressive 35 per cent in the space of just 7 weeks.

Prospects for 2017

QBE is a bit like the boy who cried wolf. It's been telling the market for so long that it's going to turn its business around that everyone's stopped listening. What's likely to happen is at some stage in the future the company will announce a better than expected profit result. And that will shake the market out of its lethargy - causing the share price to climb. I just can't tell you when it will happen or whether 2017 will be the year.

Recommendation: Buy below $15.00

Resmed (ASX:RMD)

2016: Investment Return: Not yet reached our buy price.
Total Return since recommendation: Not yet reached our buy price.

Back in the 80's at Sydney University Resmed pioneered the sleeping device, which helps heavy snorers get a decent night's sleep. The founder said it initially looked like a "Darth Vader mask hooked up to a dunny seat". It's come a long way since then.

'Obstructive Sleep Apnoea (OSA)' is the term given to people who snore so severely, they actually stop breathing for brief moments during the night. According to researchers, it affects one in four adults. Resmed is the global leader providing a solution to a $165 billion a year problem.

What we said originally:

"An Australian Success Story whose Share Price has risen 75 times… and is just getting started". We argued that, given 90 per cent of people who suffer from sleep apnoea have yet to be diagnosed, growth could feasibly continue for decades.

Better Value Elsewhere

When we recommended ResMed in July 2014, it was trading at $5.34 per share -- a price we weren't willing to pay. We nominated $4.80 as our buy up to price, to account for a margin of safety.

What's so important about a margin of safety?

Well, ResMed is a classic growth stock -- which means that investors are willing to pay a premium for its fast growing earnings. Yet history has shown time and again, that the moment a growth stock starts to show signs of slowing, the share price can come crashing down.

That's why we were happy to wait. Blueprinters will know that sometimes patience has its rewards - for example, both Credit Corp and Flight Centre stayed stubbornly over our valuation for months before we bought them.

However, after almost a year and a half of Resmed's share price staying well above our buy up to price, there appears little chance we'll be able to purchase it at a price we're happy with. Of course we're constantly looking at opportunities, and if the situation changes and we are able to buy Resmed at a decent price -- you'll be the first to know. Until then we're ceasing coverage.

Retail Food Group (ASX:RFG)

2016: Investment Return: Not yet reached our buy price.
Total Return since recommendation: Not yet reached our buy price.

Retail Food Group (RFG) is now Australia's largest food franchise provider, with 2,530 stores in 69 countries. I can almost guarantee you've eaten at least one of their products: maybe a pie at Michel's Patisserie, a loaf of bread from Brumby's Bakery, or a coffee from Gloria Jean's.

At the moment, roughly three-quarters of RFG's earnings come from its Aussie franchises, but it's their international expansion into China and India that's really exciting.

What we said originally:

"RFG is a very well run business, with enormous upside. We believe that RFG offers compelling value, and offers a decent margin of safety, at $5.50 -- which is around 10 per cent below the current share price. In other words, we think it's a bit pricey right now. So, sit back, eat a donut or three, and wait."

What happened in 2016:

It's been less than two months since we recommended RFG, and it's yet to trade below our recommended buy price of $5.50. So that means we're currently sitting back, eating a donut, and watching the share price. And it moves around a bit, having traded as low as $4.09 and as high as $7.37 in the past year.

We'll alert you if the shares get to our recommended buy range of below $5.50.

Recommendation: Buy below $5.50

Rio Tinto

Rio Tinto (ASX:RIO)

2016: Investment Return: 38.7%
Total Return since recommendation: 3.0%

Rio's one of Australia's biggest companies, and a genuine 800-pound gorilla of global mining. It's a $25 billion producer of aluminium, copper, coal and diamonds, but iron ore is the main game.

What we said originally:

"When it comes to buying resource stocks, timing is everything. The best time to buy shares in a mining company is when the price of the commodity it produces is in a slump ... like right now".

Our Grade for 2016:

In January miners were on the nose, by Christmas they weren't

At the start of 2016 the price of iron ore was at an 8 year low, as was RIO's share price. Some iron ore miners had gone bust; others were massively cutting back their operations. Not Rio Tinto. In fact CEO Sam Walsh said the company was ramping up production, staring down both the competition and the price of iron ore. That's the advantage of being a low cost producer like RIO – you can ride out the bad times until commodity prices lift. And lift they did through the course of 2016. The iron ore price ended the year nearly twice what it was at the start of the year. That's why RIO delivered patient shareholders a 38.7 per cent return last year.

Prospects for 2017

Rio is one of the world's great mining companies, and will be making profits (and paying dividends) for decades to come. But like all cyclically priced mining companies the time will eventually come to sell. That time will be when everyone is falling over themselves to buy. We'll let you know when we think that is.

Recommendation: Buy below $55.00

SeaLink (ASX:SLK)

2016: Investment Return: Not yet reached our buy price. **Total Return since recommendation:** Not yet reached our buy price.

Ferry and cruise boat operator SeaLink has been growing aggressively, buying up companies since it listed in October 2013. The company now operates in four states, has 75 ferries, and carries 8 million passengers each year.

What we said originally:

“We’ve been watching this business for a couple of years, and we’ve been impressed by its strong returns, low debt, and quality of earnings. For the patient investor, this could be a goldmine...but not yet.”

What happened in 2016:

It’s only been three months since we recommended Sealink (SLK), and it’s yet to trade at our buy price of below $3.50. So that means at the moment we’re like a Chinese tourist sitting on a Sealink ferry, (though we’re watching the share price, not the coathanger). And the share price does move around: in the last year it’s traded as low as $3.14 and as high as $4.85. We’ll alert you if the shares get to our recommended buy range of below $3.50.

Recommendation: Buy below $3.50

SELECT HARVESTS

Select Harvests (ASX:SHV)

2016: Investment Return: 42.1%
Total Return since recommendation: 42.1%

As a commodity, almonds are pound for pound more valuable than iron ore, coal, or gas. And Select Harvests wants to be one of the world's largest producers of them. Australians on average consumed almost a kilo each of almonds last year, but it's not just bearded hipsters getting nutty about nuts. Demand from China has doubled in the past five years alone and Select Harvests represents an opportunity to tap into the Asian food boom.

What we said originally:

"A business with a 50% upside: Select Harvests' share price has been smashed in the last year, due to a collapse in the price of almonds. However, if you look at the long-term average price of almonds, Select Harvests is cheap, and trading well below its intrinsic value."

Our Grade for 2016:

A timely purchase has delivered us a great return

Okay, so leading with the headline "a Business with a 50% Upside", didn't exactly leave us with much wriggle room! However when we recommended SHV in May, we were confident the market was being far too pessimistic. And within six weeks of our recommendation, the market caught up to our way of thinking -- pushing the share price up 43 per cent! The share price has since come back a little but since May SHV has delivered a staggering 42 per cent total return.

Prospects for next year

The important thing to understand about SHV is that their biggest investment comes at the beginning; when they're planting the almond trees and setting up the orchard. However once the trees are fully grown, they have years of profitable harvests ahead of them (well, so long as there's enough water!).

And that's the situation that SHV finds itself in now. SHV is expecting its next almond harvest to be its biggest ever. That's a good thing, given that the global appetite for almonds is nearing record highs, driven by increasing demand from China and India. And while the company continues to expand its retail packaged food offering it's really just peanuts at this stage. The real money is made in the harvest.

*If you're an owner of Select Harvests we recommend you **HOLD** your shares for further upside.*

*If you want to own SHV, wait for the opportunity to **buy below $5.25.***

Recommendation: Buy below $5.25

SOUTH32

South32 (ASX:S32)

2016: Investment Return: 159.9%
Total Return since recommendation: 58.8%

It's one of Australia's largest mining companies, formed after BHP Billiton decided to get rid of a number of its smaller operations. It rolled them up into a brand new company, gave it a funny name and floated it on the stock exchange back in 2015. In hindsight, it was possibly the worst possible time for that to happen. After a promising start, when the share price touched $2.45, it was all downhill to a low of 87 cents in January 2016. And that's where we'll pick up the story.

What we said originally:

"In the past, investors have become very wealthy by picking up BHP's castoffs. We believe that could happen again with South32".

Our Grade for 2016:

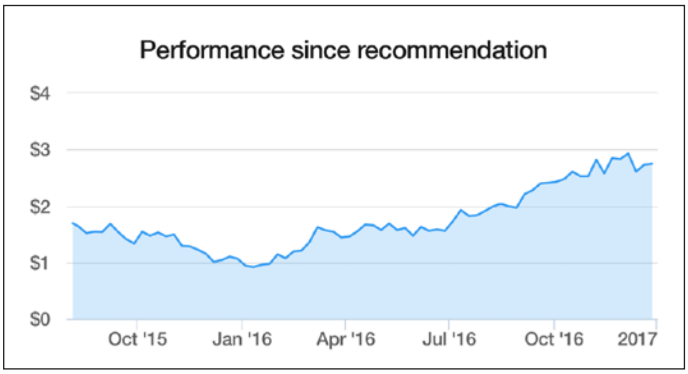
How could it be awarded anything else in 2016?

In last year's Blueprint report card South 32 was awarded the dubious distinction of being our worst performing stock for 2015. But 2016 was a totally different story. Having delivered a total return of 159.9% over the course of 2016 we've awarded it 2016's best performing Blueprint stock.

January saw Scott and I buying S32 shares - I telegraphed our intentions in our January Podcast and in the January Portfolio Report. Those who acted similarly were well rewarded. The rebound in the share price occurred because commodity prices lifted across the board throughout 2016. S32 was well placed to capitalize on the improving situation with a debt free ledger and CEO, Graham Kerr, busy cutting costs to the bone.

Prospects for 2017

Those of you who've heard me discuss mining companies before probably have an idea of what I'm about to say. Share prices of mining companies live and die by the world spot prices for the commodities that they sell. And it's difficult (often impossible) to know for sure where spot prices are heading. That is unless they are at crazy cyclical highs or lows. I'll probably hang onto my S32 shares until everyone starts loving the stock so much that it will seem like a good time to bail out (and we'll let you know if and when that happens).



Recommendation: Buy below $2.00

Tassal (ASX:TGR)

2016: Investment Return: Not yet reached our buy price.
Total Return since recommendation: Not yet reached our buy price.

Tassie success story Tassal is Australia's biggest aquaculture company, our largest producer of salmon, and was recently voted the world's best salmon farming operation. And with the total seafood market in Australia worth more than $4 billion, CEO Mark Ryan is fishing to add more value still - with plans to expand the operation to 'salmon and seafood', not just salmon.

What we said originally:

"The market's valuing Tassal as a commodity producer. If the company becomes recognised as a premium food producer instead, we'd be hoping for a share price of $4.50 or above. At the moment the shares are too expensive … yet patience can have its own rewards."

Better Value Elsewhere

In fishing terms, Tassal is the one that got away.

When we first recommended Tassal in June 2015, we said that we believed that the Tasmanian salmon farmer could be a great investment - but only at the right price:

" .. even when we find a great business with a compelling investment story, we'll only recommend it at a price that builds in a margin of safety".

Well, Tassal never made it to our original recommended buy price.

In September last year we reviewed their annual results, and lifted our buy up to price to $3.30.

Still no luck.

That's what happens sometimes with investing (and fishing).

So with Tassal trading at around $4.00 -- and looking quite expensive -- we're ceasing our coverage. Rest assured we're always fishing around for value, and if the situation changes, we'll be the first to let you know.

Until then, we're ceasing coverage of Tassal.

Telstra (ASX:TLS)

2016: Investment Return: 4.3%
Total Return since recommendation: 4.3%

Demand for data — especially mobile data — is growing exponentially. And Australia's biggest telco, Telstra, is placing significant investment into wireless technology, poised to take advantage of that growing demand into the future. There are some very smart people who believe that Telstra's wireless network could eventually become so powerful it will have the ability to bypass the NBN… and perhaps even kill it.

What we said originally:

"The growth of data traffic on Telstra's wireless network has seen a nine-fold increase in the past five years. In fact, the amount of data consumed has doubled even in the past 12 months. In a world where the future is increasingly mobile, being a part owner in the nation's number one wireless carrier makes sense. Especially when we're buying it at a bargain price. We believe that Telstra is offering very good value at today's prices (around $5)."

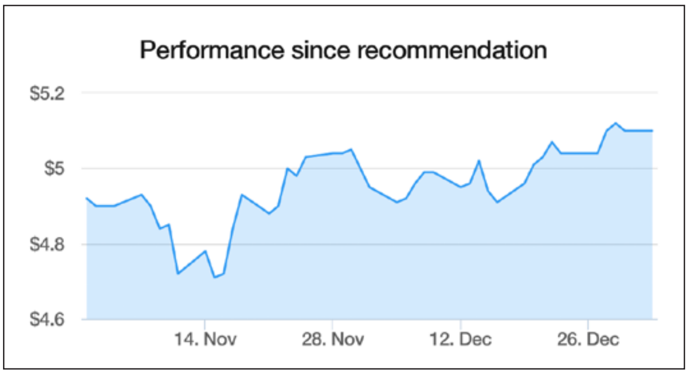
Our Grade for 2016:

Too early to call

We only recommended Telstra in November -- when it was touching 12-month lows. However it's fair to say that the last few years for Telstra have been forgettable: both for customers who have been hit with outages, and shareholders, who have been hit with a slumping share price.

Prospects for 2017

To be honest, CEO Andy Penn has his work cut out for him: he has vowed to cut at least $1 billion in costs over the next five years, and he's also fighting his competitors who want Telstra to share its premium network in regional areas. Still, Telstra has been under attack from multiple competitors since it was privatised in 1997. Our base case -- which we detailed in our recommendation -- is that at current prices you'll likely double your money within 10 years. That's why Scott bought $5,000 worth of Telstra shares in the $100k Live Portfolio.



Recommendation: Buy up to $5.00

The Reject Shop (ASX:TRS)

2016: Investment Return: -18.2%
Total Return since recommendation: -8.0%

The Reject Shop is what's labelled a 'discount variety retailer', which basically means it sells all sorts of stuff with funny labels at cheap prices. There's plenty of demand for discount stores -- and TRS has more than 300 of them scattered around the county (although you might struggle to find one in the posher suburbs).

What we said originally:

"A unique opportunity to buy a quality business at a cut price".

Our Grade for 2016:

"It's a Long way to the Top"

Now we're not ones for technical analysis (and we're not about to start now) but The Reject Shop's share price has traced out an extremely interesting pattern over the last 10 years. It looks a lot like a roller coaster with four huge equally spaced peaks and four deep equally spaced troughs. And it ended 2016 in the depths of one of those troughs (hence the "F" rating). What's that telling us? Absolutely nothing! But it does mean Reject Shop shareholders have been on quite an explosive ride over recent years. And 2016 was no exception.

The company kicked off 2016 with a great interim profit result – up by 43 per cent. That caused the share price to soar. Then there was the full year result – released in August. Net profit was up by 20 per cent and the price......collapsed? Despite the headline profit lift dissecting the figures showed that the all important 'same stores' growth figure was hardly growing at all. And that's what the market didn't like. Like Oliver Twist it wanted more. This manic share price behavior also explains why we maintain price limits. If you'd bought enthusiastically into the stock at 15 bucks then you'd be licking your wounds now.

Prospects for 2017

At October's AGM Reject Shop's Managing Director, Ross Sudano, outlined what he saw ahead for 2017. He stated that there was doubt whether the upcoming interim profit result would better last year's. And a period of flat growth could see the share price taking a while to climb back again.

Recommendation: Buy below $9.00

Trade Me Group (ASX:TME)

2016: Investment Return: 27.7%
Total Return since recommendation: 61.1%

Trade Me Group is New Zealand's version of eBay. However, TradeMe is also New Zealand's version of CarSales.com.au, RealEstate.com.au and Seek.com.au. In other words, Trade Me is four blue chips rolled into the one. It's so powerful, and has such a stranglehold on the rivers of gold, that if it were in Australia it would likely be banned (or broken up) by the regulators.

What we said originally:

"Trade Me's recent reinvestment expenses have scared away short-term investors. That doesn't worry us long-term investors at the Blueprint. Profits are coming. Just you wait and see...".

Our Grade for 2016:

Solid performance, but questions remain...

Trade Me has been investing heavily in its technology. That makes sense -- it has a stranglehold on a market that's roughly the size of Sydney -- and they need to defend their monopoly. However we're not sure it's having the impact that management are suggesting. This year revenues have increased. However, their operating margin -- the percentage of revenue that converts into earnings -- has been falling each year. What's more, they're not growing their earnings per share.

Prospects for 2017

Trade Me has a virtual monopoly in New Zealand (we're just waiting for them to begin charging monopoly like prices). However, the biggest threat for Trade Me is competition. Last year we saw Facebook add a new feature to their app, 'Marketplace', which allows their 1.79 billion users to buy and sell things from people near them. While it's only been a moderate success so far, it underlines the ever present threats to Trade Me's New Zealand domination.

Recommendation: Buy below $3.21

UBS International Ethical ETF (ASX:UBW)

2016: Investment Return: 6.6%
Total Return since recommendation: 6.6%

One of the hottest trends in finance is ethical investing. Right now there's $50 billion invested in ethical options - twice as much as two years ago. UBS International Ethical ETF gives you exposure to the world's greatest businesses - all in one simple, cheap investment - you just won't get any tobacco companies or controversial weapons businesses.

What we said originally:

"The best way to invest ethically -- in line with your personal values -- is to build a portfolio of individual stocks. That way you decide what shares you're comfortable with, not an overpaid marketing executive in a Sydney high rise. And if you want a low cost completely hands-off way to do it, then UBS International Ethical ETF will give you the long-term returns of investing in overseas share markets, while beating the pants off most of the big money managers."

Our Grade for 2016:

But choose your own adventure (see below)

To be fair, you can't really 'grade' a fund that tracks a global index -- and that essentially is what this fund (UBW) does, sans a couple of contentious stocks.

However, if you're an ethical investor (as I am), I'll give my own grading system.

I'll give you an 'A' if you chose your own individual stocks, based on your beliefs.

I'll give you a 'B' if you invested in UBW.

And I'll give you a "D" if you outsourced your ethics and invested in a high fee ethical fund!

Prospects for next year

We have absolutely no idea where the world share markets will be next year -- and neither does anyone else. However we are as confident as Warren Buffett in predicting that in ten and twenty years time it will be much higher than it is today.

Recommendation: Buy at Market

Vanguard International ETF (ASX:VGAD)

2016: Investment Return: 9.3%
Total Return since recommendation: 7.5%

An investment with Vanguard will give you most of the great US businesses. But you also get 40 per cent of world share markets located outside America. That includes the UK market (four times the size of Australia's) and the economic powerhouses of Germany, France and Switzerland. Plus the world's second-largest market, Japan (a ranking soon to be taken by China).

What we said originally:

"Warren Buffett famously plans to leave 90 per cent of his estate in just one index fund: based on the S&P 500. We think the Vanguard International ETF (VGAD), is an even better idea, because it not only gives you a holding in US shares, but the rest of the world too."

"In plain English, Vanguard's international ETF is the cheapest, easiest way to invest in nearly all of the world's best businesses like Apple, Amazon, Facebook, Microsoft, Berkshire Hathaway, Nike, Toyota, and Tesla."

Our Grade for 2016:

This really is the ultimate set and forget investment

The beauty of this investment is that whenever a breakthrough company emerges anywhere in the world, it will eventually become part of the portfolio. This happens automatically, and for an ultra-low management fee.

Prospects for next year

Just as we said for UBW we have absolutely no idea where the world share markets will be next year -- and neither does anyone else. However we are as confident as Warren Buffett in predicting that in ten and twenty years time it will be much higher than it is today.

Recommendation: Buy at Market

Washington H Soul Pattinson (ASX:SOL)

2016: Investment Return: -10.5%
Total Return since recommendation: -0.3%

A company with a long name, and an even longer history -- in fact WHSP has been around since the early 20th century, and is still run by the founding family, from the same Sydney office. With interests in telecommunications, pharmaceuticals, coal and building materials, WHSP has a peerless record of rewarding shareholders -- having paid 226 consecutive dividends over the last 113 years.

What we said originally:

"Despite all this investment success, the business still flies under the radar, with only a handful of investment analysts bothering to cover the stock. Our valuation shows that at current prices, it's undervalued, and it's good buying".

Our Grade for 2016:

The share price might be down but give the management some slack!

If Soul Pattinson's share price is anything to go by then you'd think that 2016 must have been a bad year for the company. The first trading day of 2016 kicked off with the share price trading at an all time high of $18.11. Now it's trading around 16 per cent lower. And that's despite the general stock market climbing in price by 7 per cent.

The company recently held its 114th AGM. Generally the meeting was upbeat: profit was up. The dividend was up. Everything appeared to be great. So what is the problem?

Well, it has everything to do with a company that SOL owns – TPG Telecom, in which it has a 25 per cent stake. TPG is one of many shareholdings that SOL holds in other listed companies. But TPG is the largest, by a long way. Which means that SOL's share price is affected a lot by movements in the share price of TPG. And with TPG down 31 per cent this year (a massive $2.4 billion in market value) that accounts for the lion's share of SOL's share price slide.

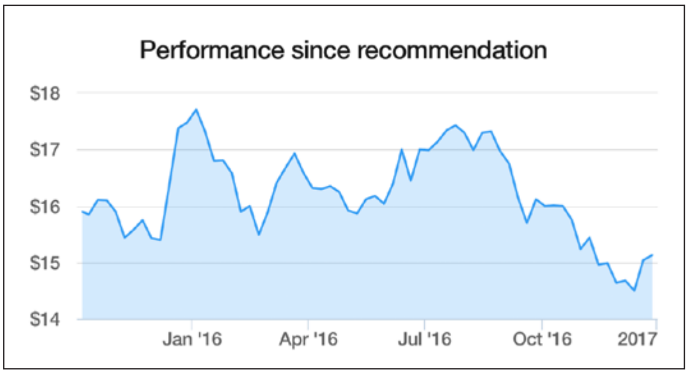
However, it would be wrong to get too upset about these figures. Instead consider this: SOL originally paid just $129 million for its 25.2 per cent stake in TPG. That shareholding is now worth $1.4 billion at today's stock market prices. And, in my mind, that's a great investment.

Just one day before the end of 2016 it was announced that WHSP is buying a 19.9 per cent stake in fund manager Hunter Hall International from Hunter Hall's founder, Peter Hall. The interesting thing is Hall is selling the stake for a dollar per share (despite shares trading on the stock market at over 3 bucks at the time). Hall is also looking to sell his remaining 24 per cent. WHSP is likely to buy that as well unless another party offers a big price. It looks like a great deal for WHSP. There's more to this story yet to come. We'll keep you posted.

Prospects for next year

SOL has been referred to as Australia's Berkshire Hathaway, because of its conglomerate collection of businesses, its thrifty mentality, and its old-school value investing philosophy which has been honed over generations. We believe that SOL is currently undervalued, and that's why it's one of our best buys right now.

Our recommendation is buy below $16.00.



Recommendation: Buy below $16.00

Woodside Petroleum (ASX:WPL)

2016: Investment Return: 12.2%
Total Return since recommendation: 0.6%

Woodside's one of Australia's biggest oil and gas producers, and a major supplier of Liquefied Natural Gas (LNG). Although the company has pulled back from some of its more ambitious LNG projects in recent years, it has enough energy reserves to supply a hungry market for decades to come.

What we said originally:

"When we look at the growing demand in China, coupled with the recent policies that crack down on Chinese pollution and prop up clean energy sources such as LNG, we see Woodside nicely positioned for the future".

Our Grade for 2016:

A solid year which had everything to do with the rising oil price

Woodside is an oil and gas company and that means its share price is largely driven by the prevailing world oil price at any point in time. The oil price started the year at $30 per barrel. It ended the year at nearly double that. It's a big increase and it's what supported Woodside's share price throughout 2016 despite a string of bad profit results.

First up the full year results, which were released in February, reported that Woodside's 2015 profit was down by 95 per cent compared to the prior year (although things weren't nearly as bad when "one-off' items were removed from the equation). The bad news kept coming with the half year profit coming in at half that of the year before.

So, I hear you ask, why didn't those results decimate the share price? It's because investors knew that those results were the product of past low oil and gas prices. And since the oil price was now rising – future results would be much better.

Prospects for 2017

Woodside operates in a cyclical business. Oil prices have been low but we expect they'll probably lift higher from here. We've explained our thinking on this issue at length in recent Portfolio Reports. The short story is that OPEC nations have agreed to limit oil production and so reduce the stock-piled surplus of oil that's been depressing world prices over the past two years. We can see potential upside in Woodside and recommend an opportunistic purchase if the share price dips below our buy below price of $30.00.

Recommendation: Buy below $30.00

Woolworths (ASX:WOW)

2016: Investment Return: 1.5%
Total Return since recommendation: 4.6%

Woolworths, and perennial rival Coles, control around 80 per cent of Australia's supermarket industry. Add in market-leading positions in fuel, grog, hardware and poker machines, and you can see why around 40 per cent of all retail spending ends up in the tills of either Coles or Woolworths.

What we said originally:

"Woolworths is a great business, but that doesn't mean you should rush out and buy it at any price. Over the long run, a company's share price is driven by the profits it posts on the scoreboard. The more reliable the profits, the steadier the share price. We value Woolworths at $25, and it's currently trading closer to $20. At the moment, we think Woolworths represents excellent long-term value."

Our Grade for 2016:

Woolies breaks even after digging itself out of a hole

Woolies kicked off 2016 in trouble. It was trouble that simply flowed on from a horror 2015.

Its $2 billion investment in Bunnings rival, Masters,wasn't working out. Its discount store, Big W was performing poorly. And CEO Grant O'Brien's head was on the chopping block.

Woolies' share price plunged into the middle of the year, hitting a ten-year low in July. Inconceivable just a couple of years ago, shares were trading at half the price they'd been in 2014.

The only saving grace amongst all this carnage was that we marked the event by featuring Woolies as our cover stock in the July Blueprint. We reissued a strong buy recommendation on Woolies with the words: "Woolies shares are now on special".

The call was timely - the Blueprint hit your computer on the 6 July, the same day it hit that ten-year low. Our reasoning for issuing it with another buy recommendation was simple:

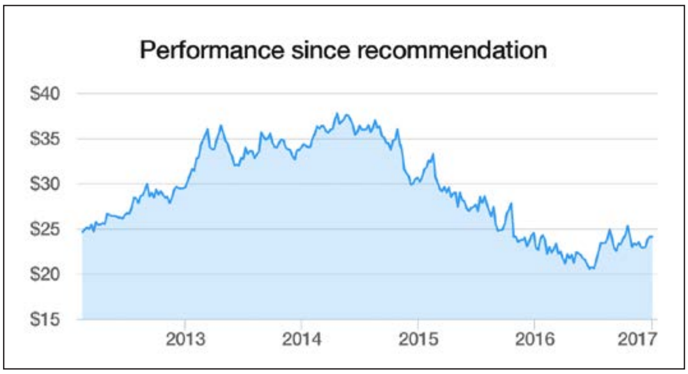
In February hard-nosed (and relatively new) Woolies Chairman, Gordon Cairns, replaced outgoing CEO, Grant O'Brien with Brad Banducci. We felt that Cairns and Banducci, both new boys, would find it easy to make the hard calls necessary to initiate change.

And Banducci didn't disappoint. He was quick to write off nearly a billion dollars in restructuring costs. He also moved one thousand staff from admin roles to the front line, with another 500 positions scrapped entirely. Orders were delivered for underperforming stores to be closed, and for the rollout of new stores to be slowed. All the Masters stores were simply closed down and the real estate was placed on the market.

Even their petrol business was up for grabs due to the low returns it was generating. And with just days left to the end of the year a $1.8 billion deal was struck to offload it to BP (pending approval by the ACCC). Even though Woolies would no longer own the petrol stations it would continue operating the convenience stores attached to them. And very importantly, for Woolies shoppers, the 4c a litre discount will remain at existing sites and be extended to other BP outlets.

Prospects for 2017

We've long said that the turnaround of Woolies will take some time – years not months. But don't forget that beneath all the recent drama is a solid business. We expect the patient shareholder to be rewarded.



Recommendation: Buy below $30.00

Update: The Break Free Portfolio

It's been three years since we launched the Break Free Portfolio, a simple, set and forget portfolio that will allow you to manage your investments in around 10 minutes a year.

Here's what we said about it when we launched:

"The Break Free Portfolio is for people who don't want the stress or risks of choosing individual stocks. It's for people who want to grow their wealth, steadily and surely -- a disciplined, systematic approach to investing, that has been proven over decades."

Okay, so what is it?

The Break Free Portfolio is a selection of five Exchange Traded Funds (ETFs) that you buy and sell on the stock exchange, just like shares in one of our Blueprint businesses.

It gives you an instant exposure to Aussie shares, international shares, property and fixed interest. The Break Free Portfolio's a bit like owning a diversified managed investment -- except the fees are around 90 per cent lower than you'll be slugged if you invest in a fund through a financial advisor.

Fund	ASX Code	Allocation
ASX 200 Streettracks	STW	35%
Vanguard Australian Small Companies Index ETF	VSO	15%
iShares Global 100 ETF	IOO	20%
Vanguard Australian Property Securities ETF	VAP	20%
Vanguard Australian Fixed Interest ETF	VAF	10%

How does it work?

We think the Break Free portfolio is the ultimate 'set and forget' investment.

It shouldn't take more than an hour to get it up and running. And once that's sorted, you leave it alone! Go fishing, play golf, do whatever you like -- because you won't need to be checking share prices, or worrying about financial markets ever again.

Then once a year (like right now), you sit down with a cup of milo and a biscuit, and work out whether you need to rebalance your portfolio (and that only needs to be done if you've become overweight in one holding).

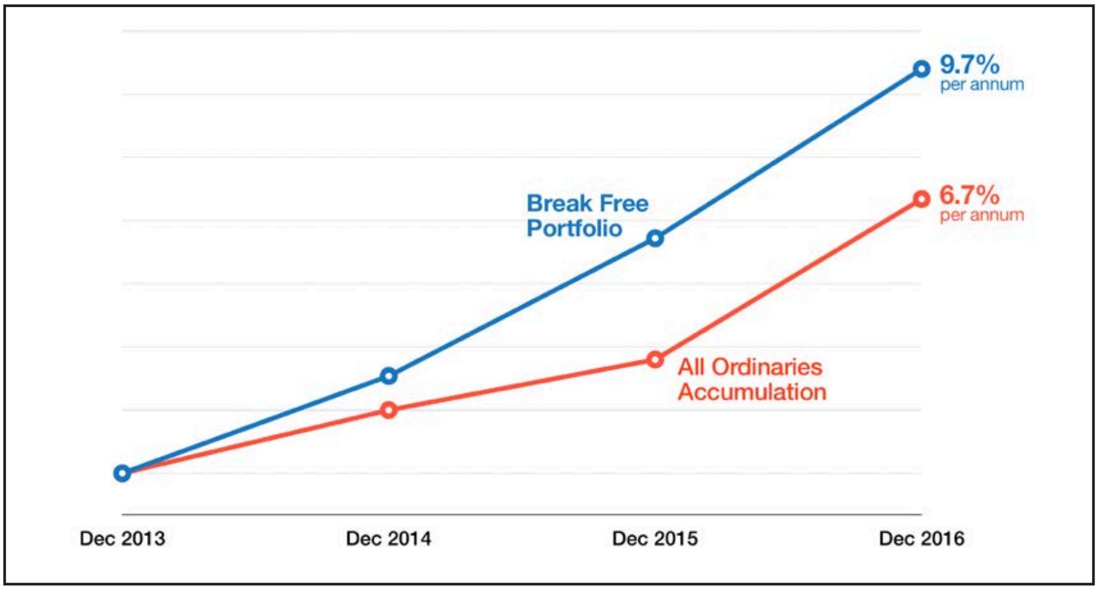
For the full lowdown on setting up the Break Free Portfolio, click here.

Your ten minutes of work starts now.

So how has it performed?

Since the end of 2013, ***the Break Free Portfolio has delivered a compound annual return of 9.7 per cent.***

That compares to the All Ordinaries Accumulation Index (which measures share prices, plus dividends) which has returned 6.7 per cent per annum for the same period.



iShares Global 100 ETF (ASX:IOO)

(Seeks to track the investment results of an index comprised of 100 large-capitalisation global equities. This ETF doesn't include any currency hedging).

Return in 2016: 8.44%
3 year compound annual return: 10.1%

ASX 200 Streettracks (ASX:STW)

(Seeks to closely match, before fees and expenses, the return of the ASX200 Index)

Return in 2016: 12.96%
3 year annual compound return: 7.6%

Vanguard Australian Small Companies ETF (ASX:VSO)

(Includes the smaller Australian companies by market capitalisation)

Return in 2016: 15.39%
3 year annual compound return: 6.8%

Vanguard Australian Property Securities ETF (ASX:VAP)

(Invests in a range of retail, industrial, tourism, and multi-sector (diversified) property securities).

Return in 2016: 12.65%
3 year annual compound return: 16.9%

Vanguard Australian Fixed Interest ETF (ASX:VAF)

(Invests in a diversified portfolio of Commonwealth, State Government and corporate bonds).

Return in 2016: 2.27%
3 year annual compound return: 4.7%

It's time to look at rebalancing the portfolio.

The idea behind 'rebalancing' the Break Free Portfolio is to return the individual holdings back to the original percentages if they've risen (or fallen) by a materially different amount compared to the other holdings over the year.

Simply put, it's a 'sell high, and buy low' strategy. It means taking some profits from the best performing sectors, and topping up those that haven't done as well. By doing this, you don't need to worry about that thorny question - 'when's the best time to sell?'

This year the process is very easy. First up, we've done all the calculations for you. Secondly -- even though some ETFs had done better than others, the percentages haven't strayed far from our target weightings. So that means you don't actually need to rebalance this year!

Overall, if you'd set up the Break Free Portfolio at the end of 2015, here's how your weightings would have changed:

Fund	Target Allocation	Current Weighting
ASX 200 Streettracks	35%	35.15%
Vanguard Australian Small Companies Index ETF	15%	15.72%
iShares Global 100 ETF	20%	19.81%
Vanguard Australian Property Securities ETF	20%	20.17%
Vanguard Australian Fixed Interest ETF	10%	9.15%

So,our recommendation is this: Leave things exactly as they are.

Now you won't need to worry about the markets for another year!

iShares Global 100 vs Vanguard International

Let's answer a question some of you have been asking: Why is iShares Global 100 in the Break Free Portfolio rather than your Blueprint recommendation, Vanguard International?

The simple answer? When we created the Break Free Portfolio, the Vanguard ETF didn't exist (it was only launched in late 2014).

It's a valid question though. So let's answer another question -- if you've already set up your own Break Free Portfolio, should you sell iShares Global and buy Vanguard International?

Probably not. Okay, the Vanguard ETF will give you a wider range of global businesses (around 1,600, compared to 100), but the performance will be similar.

The key difference? Our Vanguard recommendation is hedged against currency changes, whereas the iShares ETF isn't.

So it's really a 'Ford vs Holden' argument. If you're setting up the Break Free Portfolio from scratch, you can pick either. Whichever way you lean, in the long run you'll be happy with the outcome.

Members of the Blueprint team own shares in Coca-Cola, Berkshire Hathaway, Collins Foods, Woolworths, The Reject Shop, Woodside, Orica, Hotel Property Investments, AFIC, Trade Me, Insurance Australia Group, BWP, QBE Insurance, South32, Rio Tinto, Decmil, Collection House, Flight Centre, ANZ Bank, Credit Corp and Telstra.

Please remember that investments can go up and down. Past performance is not necessarily indicative of future returns.

The Barefoot Blueprint bases recommendations and forecasts on techniques and sources believed to be reliable in the past but cannot guarantee future accuracy and results. The Barefoot Investor will not be liable for any loss or damages arising from the use of this information.

How We Do Business At Barefoot

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That means we do not sell investment products, and we do not receive any commissions, or payments of any kind for any of our recommendations. To be crystal clear, we do not have any arrangement with any financial institution, and we do not accept advertising or speaking fees from financial institutions.

So what do we do?

We publish fiercely independent, straight-talking money advice... whether you're 8 or 80.

Because we are financial publishers and not your financial advisor, we don't provide investment advice that is tailored to your personal situation. While we make specific recommendations, they should not be construed as personal investment advice.

When we answer questions from readers, our advice is of a general nature only, and should not replace seeing an independent advisor. To be clear: You should seek independent financial advice before acting on any of our recommendations.

That's the guts of it. However, if you'd like to read what Larry our lawyer has written, click here.

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