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- The perfect strategy for volatile times
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- Five catalysts for income and capital growth

The Amazon Income Secret

How to get the world's most successful company to pay you a second income

Eoin Treacy, Investment Director



Jeff Bezos is the richest man in the world. Even after the volatility of the last few months his company, Amazon, is the largest in the

world with a market cap of \$789.2 billion.

He's nothing short of a genius. He saw the potential of the internet, started selling books and now sells just about everything. He saw the potential for cloud computing so he started Amazon Web Services and now that business provides third party holdings for everyone from the US government, down to newsletter writers and big corporations.

In a true sign of 21st century

wealth... Bezos even has a fleet of rockets.

He has a personal fortune of somewhere between \$100 and \$160 billion depending on the price of Amazon shares. But today I write to you with an intriguing proposal. **How would you like him to write you a cheque every quarter? Not just in 2019... but indefinitely?**

That's what we are going to talk about this month and by the end of this issue I hope you will have an appreciation for what Albert Einstein called the 8th wonder of the world and how incorporating it into your investment style can help pad out your returns – and get paid regular income.

With markets continuing to be volatile and shares performing

poorly in 2018, I think it's time to tap into the fact that the tech industry is the richest in the world. Regardless of the stockmarket, it's generating huge amounts of cash. Today, I want to introduce you to a clever way of pocketing some of that cash for yourself.

How to make the richest man in the world pay you a second income

Amazon doesn't buy back shares and it doesn't pay a dividend.

Bezos has long been noted as being less generous with his philanthropy than other billionaires, and is notoriously tight-lipped about how he spends his money, so how are we going to get him to pay us,



short of becoming one of his third-party sellers?

I'll get to that in a moment, but let's first address the question I'm sure you must be asking: why not just buy the share? Well it's simple enough. If I were writing this letter back when I was writing my book *Crowd Money* in 2012, where was I pointing out the potential the company represents, I would wholeheartedly recommend buying Amazon's shares.

Today it is still trading on an aggressive historic price/

and its ecosystem. I have not recommended you buy Apple since we started this newsletter more than two years ago for one simple reason. It is a single product company.

Outside of the iPhone it does not have another blockbuster product and has little to show from a decade of R&D. Just about everyone in the world who wants a mobile phone has one and iPhones are increasingly a luxury brand. The problem with all luxury brands are that they sell non-essential items which trade on

Paper and packaging is a well-established business segment and it tends to pay respectable dividends. It is also likely to continue to grow along with the online marketplace since just about every physical product bought online needs to be shipped. The problem with this hypothesis is that despite extensive research, I could not find evidence of a company that in fact makes money from Amazon.

In fact, there is evidence Amazon is manufacturing its own boxes so that closes off packaging as an outlet. It is the same story with shipping and freight. Right now, Amazon uses UPS for the majority of its shipping needs but it is buying planes and hiring drivers of its own to reduce that reliance.

Every package that arrives requires a shipping label and I know the company that provides them. In fact, it is the leader in this segment and also supplies the labelling system eBay sellers use. It has a stellar record of increasing dividends but the share has been trending down for five years and margins are very thin. Additionally, it is facing increasing competition from interlopers that are ahead of the technology curve.

The company has an impressive plan to turn things around but has not made much progress yet. Therefore, it is either a turnaround candidate or what is colloquially referred to as a value trap, but most importantly it does not let us have our cake and eat it.

Amazon pays all sorts of companies for the services it requires to maintain its website, whether they are chip providers, server operators, cybersecurity providers, or consumer goods manufacturers. However, there is one group of companies that takes a slice out of every

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earnings (P/E) ratio of 110 and an estimated P/E for December 2019 of 83.83. But the price is multiples of what it was back then. That valuation leaves no room for error.

For a company whose fate is closely tied to the fortunes of the consumer, that's a riskier bet today than it was five years ago. Even so, the march of retail operations of all hues to an online marketplace continues apace and that is only likely to accelerate during the next recession, considering the cost involved with sustaining brick and mortar operations.

So how do we make money out of Bezos without taking on a boatload of risk to get it? The answer is in dividends – just not *directly* from Amazon.

The secret to tech income

In the last few weeks everyone has been talking about Apple

cache and limited supply. That doesn't work for mobile phones which are essential mass-market products.

But the idea of an "ecosystem" of companies beyond the flagship business is a compelling one. It's the secret to tapping the tech sector for income as well as growth. While Amazon and Apple might not pay a dividend... they do huge business with less glamorous companies that do. Companies all over the world depend on Apple's success whether they are assemblers, chip providers, glass makers, sensor designers or software writers.

In much the same way Amazon has developed an ecosystem of companies it relies on to deliver its expanding product range. The obvious one is box companies. Every time we receive a product from Amazon it comes in a box. The obvious question is, which company provides Amazon with boxes?



transaction Amazon processes, and one of those is greater than all the rest. It's the company I'm recommending today.

Dividends? In a tech letter?

Before I tell you what it is though, let me answer the obvious objection.

If you are a dyed-in-the-wool growth investor, you are likely appalled at the idea of dividends. After all, many people think it is only stodgy old-world companies, like McDonald's and Coca-Cola, that pay dividends and that's only because they have to compensate people somehow because they have nowhere left to grow.

Nothing could be further from the truth. In fact, technology is so highly prolific in terms of both earnings and high margins that it is host to companies with some of the best records of dividend increases in the market.

We already own a handful of them.

Microsoft, now the world's largest company, introduced a dividend in 2003. Since that time the share has advanced 278.99%, but the total return on the share including dividend payments is 479.19%. That additional 200.2% is accounted for by the fact the company has been paying and growing its dividend persistently for 15 years.

Intel has been one of the biggest beneficiaries of the rise of the semiconductor industry and remains well placed to continue to benefit from it. The company introduced a dividend in 1992. Since then the share has advanced 2,455.67%, but when its dividends are included the return swells to 3,845%.

Cisco Systems also introduced a dividend in 2003. Since then it

has advanced 208.55%, but the total return including dividends is 287.81%.

Activision Blizzard introduced a dividend in 2010 and since then has advanced 360.2%, but with dividends included it has advanced 406.03%.

Garmin introduced a dividend in 2003 and since then it has advanced 204.3%, but the total return was 395.05%.

Becton Dickson introduced a dividend in 1962. Unfortunately, Bloomberg can only calculate total return from 1980 so I do not have exact figures for it, however since then the share has advanced 9,189.2% but the total return has been 17,622.44%.

Northrup Grumman introduced a dividend in 1977. Since 1980 the share has advanced 3,435%, but the total return including dividends has been 10,454.41%.

Back when the stockmarket was getting started, investors demanded companies pay higher dividends on their shares than were available in the bond market. That was to compensate them for the additional risk being taken on

driven total return. In the UK, for example, Associated British Foods has been paying dividends for decades. Bloomberg's history only goes back to the early 1950s and the company has been growing its dividend steadily since at least then. Since 1980 the share has advanced 1,164.43% but when those dividends are included the total return is 2,777.63%. To put that into real numbers, £1,000 invested in 1980 would be £11,644.30 today while with dividends included and reinvested that would be £27,776.30.

For whatever reason, Bloomberg only calculates total return for Tate & Lyle since 1988 despite the fact it has been paying dividends for decades. Since 1988 the share has advanced 232%, but the total return including those dividends is 1,112%.

So how does that square with the technology sector today where many of the largest, highest growth companies do not pay dividends? Instead they tout their ability to reinvest their excess funds more productively in R&D. Companies

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because of shares' lower priority in the event of a bankruptcy. Long-term investors pay close attention to dividends because there is solid evidence that dividend growth and reinvesting the proceeds from dividends is one of the most prolific sources of total return.

We certainly don't have a monopoly on dividend

don't like paying dividends so they are loathe to start doing so. It usually takes some form of crisis before shareholders can muster enough control to force companies to pay a dividend.

However, once they do start, they are very often among the most reliable dividend payers because technology companies, particularly software



companies, generally have much fatter margins than other companies.

There is a good reason Amazon does not pay a dividend though. The company has a spotty record with profitability and dividends get paid out of profits. More than any other tech company Amazon bets everything on driving the scale of its businesses and that means spending piles of cash to open up new markets and compete in one of the most cutthroat industries around: retail.

It has only been in the last couple of years that the company has been able to generate meaningful profits. It probably wants to hold off on paying a dividend for a while so it can have confidence it can continue to do so once it starts.

But that doesn't mean it isn't throwing huge amounts of cash into its ecosystem – which we can tap.

Tapping the tech ecosystem for income

But here's the thing: the wonderful aspect to investing in technology is you can have high growth rates and be paid at the same time. That is... we can bank a steady income, without sacrificing the potential for big capital gains.

online transactions in every other website. Additionally, it has a dominant footprint in the conventional retail market as well.

The growth of online retail activity has been nothing short of spectacular and it has resulted in the demise of old-world companies that missed the boat in adopting to online sales.

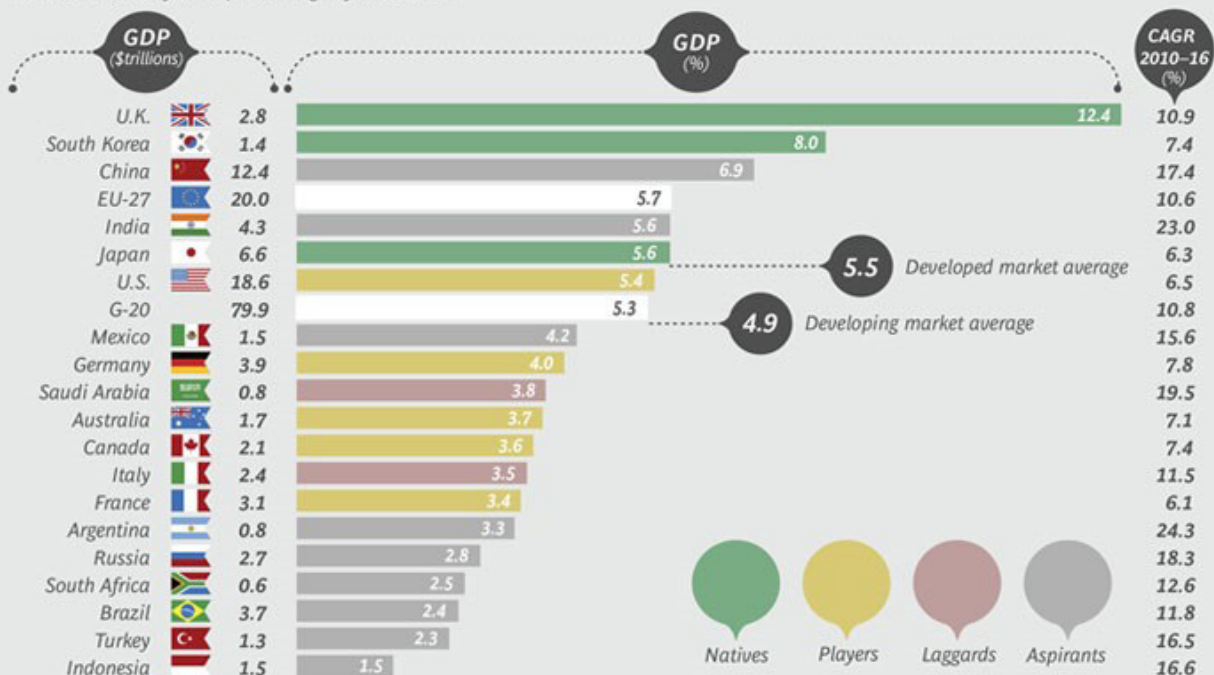
More than any other tech company Amazon bets everything on driving the scale of its businesses and that means spending piles of cash to open up new markets and compete in one of the most cutthroat industries around: retail.

Put simply, there are a handful of companies that provide services it needs to run its business and they pay dividends. The company I have selected this month gets a cut from many of Amazon's transactions as well as a high percentage of the

You will often see figures that online retail now accounts for approximately 11% of all retail activity in the US. Amazon takes about half that total for online sales with revenue of \$177 billion in 2017. Among the G-20, the UK is the biggest online market place as a percentage of

EXHIBIT 5 | The Internet Economy Will Account for 5.3% of GDP in the G-20 Countries in 2016

Internet economy as a percentage of 2016 GDP



Source: Economist Intelligence Unit; Organisation for Economic Co-operation and Development (OECD); country statistical agencies; BCG analysis.

GDP at 12.4% in 2016, sporting a compound annual growth rate of 10.9%. It's not exactly a profound prediction to think that everything that can be sold online will be within the next few years.

However, the figures quoted for the size of the online marketplace compared to general retail tend to understate the extent of the transformation that has already taken place. That is because some of the things we spend the most money on like homes, cars and healthcare are included in retail spending, but have so far been difficult for online companies to break into.

That is why companies like Amazon are moving into healthcare. It is the next logical arena to be disrupted by the online marketplace. It's also why CVS (a pharmacy like Boots) bought Aetna (a health insurer). The race is now on to capture more of the retail sector's spending on healthcare.

Tesla is in the process of disrupting the car-buying process by running its own

delivered to your home.

So, how do we get our cut? If we're not buying Amazon... how do we use Amazon's growth and enormous revenues to help grow our own wealth?

Enter Visa... which has a tight relationship with Amazon where it provides the Amazon credit card.

That ensures Visa takes a commission every time someone with an Amazon credit card makes a purchase. It also ensures that any time anyone with a Visa credit card makes a purchase anywhere, it takes a slice.

Amazon's Prime service takes a leaf out of Costco's playbook. By charging for membership, it provides an incentive for consumers to use the services they provide more than might otherwise be the case. In fact, Visa supplanted American Express two years ago as Costco's credit card provider. That's what I consider to be a good example of how it has very well-established footholds in the established brick and mortar sector but also in the emerging,

concert ticket, booking a flight or paying the gas bill.

Today, Visa processes approximately \$1 trillion in transactions per year and has 500 million transactions a day. That's twice as large as the next biggest company, Mastercard, and the company's business is growing in the mid-teens per annum. Visa is not going to get to process all \$20 trillion of the available market but it is going to end up with a sizeable slice of it. With the developed world's dominant payments platform it has a powerful selling strategy for both consumers and sellers.

In fact, I see five specific catalysts that could help Visa keep growing its revenue, dividends and share price.

Catalyst #1: India is opening up

The big opportunity every payments company is salivating at is India because it has a massive young population, a well-established consumer culture and an underdeveloped retail financial sector.

The government in India has just completed a programme to ensure every household has a bank account. The next things that are likely to follow are debit cards, point of sale machines, phone apps, QR codes. Reliance Industries' Jio 4G network has put high speed internet in the hands of the entire population and that is likely to have the same enabling effect in India as it has just about everywhere else.

A recent spat between the government and the central bank centred on the government's desire to make more money available to the financial sector so it could be lent out in an effort to boost credit. That resulted in the central bank governor resigning and a new, more business-friendly,

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dealerships and have order forms for cars online. People have been buying cars on eBay for years, but there is a realistic possibility the process will become more widespread as the pervasiveness of the online retail sector is further embedded, particularly with younger people. Companies like Fare and CarMax are already offering the ability to buy hassle-free online and have the car

and increasingly dominant, ecommerce sector.

A \$20 trillion yearly market

Visa's CFO quotes two big numbers. The first is a potential pot of \$20 trillion in purchases every year. These are the kinds of things we buy every day, whether it is paying for a



candidate being appointed. When credit card growth kicks off, Visa will be there.

Catalyst #2: Americans are finally modernising their financial lives

The US also has ample potential for growth in its own right because consumer finance is largely antiquated.

I'm still amazed when I see people use cheques to pay for something at the supermarket and it happens more often than you might think possible in today's day and age. The "tap your card to pay" process which has been available in the UK for years is only just now moving into the US. The way Visa describes the growth is that it takes about two years to get 2% penetration, the next couple of years it goes

transactions, that is no small feat of negotiation.

Catalyst #4: fintech will open up a \$100 trillion market

The second big bucket Visa's CFO is pursuing is \$100 trillion in transactions. It is the holy grail all payments companies are running after. Whether new startups, crypto or established businesses, it is this second bucket they are all chasing. The reason they are still running instead of resting on their laurels is because the second bucket of payments is not homogenous.

Think about it this way. If I go to a shop in London, Edinburgh or Sydney and make a purchase, it is all basically the same process just with different vendors. Visa goes

the \$20 trillion market I started off talking about.

The bigger \$100 trillion market is not homogenous primarily because it does not easily conform to the four-party system. For example, if I am a country and I want my national airline to purchase planes from Boeing, it's not exactly a simple process. There are going to be multiple payments.

Just think it through: there might well be some manufacturing that will take place in my home country to ensure I get some benefit from the purchase. Some of the planes will be bought, others leased back. There will be deposits, charge backs, commissions, governments, contractors, subcontractors, lawyers, engineers, pilots and politicians involved in the purchase and all of them will be part of the transaction. It has traditionally been the remit of big investment banks to tailor these kinds of sophisticated purchases and they have historically taken large fees.

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to 7%, within the next couple of years it goes to 40% and shortly afterwards near ubiquity.

Catalyst #3: PayPal partnership

It has also settled its differences with PayPal so that it now gets user data on every Visa card transaction over PayPal's network and PayPal no longer encourages Visa card holders to fund their digital wallets with their credit cards. Since Visa cards account for about half of PayPal

through the exact same process to enact the transaction securely.

If I buy something on Amazon, order an Uber or buy a song on SoundCloud, it is exactly the same. The four-party system on which Visa's business is based is the same as if I walk into a store. They are still connecting banks, consumers and merchants over a secure network. Each of these transactions are in different places and with different vendors, but the way the transaction is exacted are all identical. That is

When we think about the kinds of big payments that take place between companies, there are multiple different stakeholders, every deal is different and there is regulatory scrutiny and taxes, record keeping and systems integration issues that need to be overcome.

For example when a cybersecurity company becomes embedded with a large multinational, it has to provide a service, but in order to do so it will need to liaise with IT departments in different countries, talk to



multiple different systems, potentially get paid separately by different entities and in turn pay different subcontractors in different places.

Everything we have spoken about so far is essentially one-way traffic, but all of the new nodes currently being installed, whether as points of sale or mobile devices, are equally capable of receiving payments as they are of transmitting them.

Today most shops use point of sale machines to receive payments but they also have the ability to make payments (B2B). When we use phone apps like PayPal or Venmo we can both send and receive funds with businesses or consumers (P2B or P2P).

You may have heard about how Maersk is adopting the

completely paper-driven process which is time consuming, prone to error and opaque. Blockchain is an answer to streamlining and improving visibility on supply chains and it falls into the \$100 trillion of non-homogenous transactions.

There is no one-size-fits-all approach. That's why the international payments and B2B market has been so fragmented. Visa and other payments companies are working on solutions and the process will increasingly become more streamlined. However, it will take a lot of partnerships and agreements to get there and every payments provider is likely to take a piece of the pie. That's why there has been an explosion in the number of fintech startups.

proven and it's backed by some of the best brands in the world whether they are the brands of the nodes or the brand of the network. Every other model has enormous disadvantages in the ability to scale and the ability to bring this kind of, let's call it, best-in-class branding and capability to the benefit of all. I think the four-party model is alive and well. There's often confusion about what's going on today, and there's a perception that perhaps there are people disrupting the four-party model. Actually, it's the other way around. A lot of the new players are essentially nodes in the four party model that are new versions of traditional nodes that are enabling things that the traditional nodes perhaps didn't enable.

There is no one-size-fits-all approach. That's why the international payments and B2B market has been so fragmented.

blockchain to provide end-to-end tracking and customs clearing for goods travelling over the its shipping network. At every point in a cargo's passage from a factory to its final destination with a retailer, someone is getting paid to lay hands on it. Whether that is the trucker, warehouse, customer clearer, shipping company, more truckers, customs, warehouses, trains and trucks.

At the moment, this is a

At a Credit Suisse investor event on 28 November 2018, Visa's CFO Vasant M. Prabhu shared his view of how new companies are competing with established businesses like Visa's in pursuing non-homogenous transactions:

And the real benefit of the model comes into sort of the – it's the best way to scale. It is global in scope. It is highly resilient. It is incredibly fast. It is incredibly secure and extremely reliable. And it's

So, if you take some of the newer players like Square, Square is enabling a whole slew of merchants that traditional players had a harder time making the numbers work. Stripe is doing similar things in the e-commerce space. Adyen is doing it on a global basis. These are, in our view, enhancers of the four-party model. They are newer versions of existing nodes. And you've got a similar thing going on the issuance side, payment banks, a new innovation. They all started out wallets. They can all be issuers of debit and prepaid cards, digital banks. They are not really competitors in the four-party model as in



disrupting the model, they are just enhancing the model. They're making it so much easier for people to get value from the model.

There are a lot of crypto advocates who are going to take issue with that statement because there are some truly disruptive projects under development. But the challenge will always be to thread the needle of the four-party model, which is the relationship between banks, cardholders, merchants and networks.

I have little doubt crypto will disrupt the network eventually and will take a significant slice of the big pie, but it first has to figure out how to do that effectively. In the meantime, there is still ample scope for established payments companies to grow and prosper and indeed co-opt blockchain for their own uses.

This is our way to tap into that growth. Effectively Visa's business exists to take a cut from each of these transactions. A tiny cut... but with enough scale they add up, just as a tollbooth on a bridge accumulates cash as traffic increases.

And as we know: online and electronic spending – the “traffic” to our tollbooth – is going through the roof.

Catalyst #5: the war on cash

The really big benefit for payments companies is government antipathy to cash. Governments are broke so they

are very open to any way they can crack down on the use of cash.

The more transactions they can track, the greater the ability to monitor activity and tax it. As a Southbank Investment Research subscriber, you'll be familiar with our dim view of this practice but it's going to happen nonetheless. Governments would like to get rid of cash entirely because they would remove any impediment to increasing the supply of capital to meet their exorbitant debts so they are delighted to see the growth of the payments system.

So, Visa is a big company and is competing in a market that has the potential to grow anything from 20 to 100 times over the next 20 years, but what about those dividends? Well this is where the story gets juicy.

The company IPOed in 2008 and paid its first dividend of

0.02625¢ in January of 2009.

The last dividend it paid was in December and came in at 25¢. In the last decade the dividend payout has gone up by almost 10X. It grew at 27.54% over the last 12 months, an average of 20.74% over the last three years and an average of 20.42% over the last five years.

Let's think about this simply. If this share were held for the next decade the dividend could go up another 10X so we would get \$2.50 a share per quarter or \$1 a year for every share owned.

That's before we begin to think about capital appreciation. You can see how that is how retirement savings get a boost from the dividends paid by high-growth companies.

The yield on the share today based on those dividends is 0.66%. Don't baulk at that figure.

Action to take:	Buy Visa
Ticker:	V US
Price as of 08/01/2019:	\$136.06
Buy up to:	\$ 150
52-week high/low:	\$151.56/\$111.02
Market cap:	\$299.904 billion



<p>I expect it to grow enormously as the business scales. The reason it's so low is because the price has been going up faster than the dividends. That means you really do get the best of both worlds by investing in Visa. You get the growth, you get the income and you get a cheque from Jeff Bezos which puts a smile on my face.</p> <p>So, what's the risk?</p> <p>Well, we are talking about a global payments company so global growth is a big part of the business' expansion plans. If we get a pronounced global</p>	<p>slowdown, that is going to have an effect. However, I think it is important to remember that even in major economic crises the global economy contracts by about 3% or 4% and then turns around again.</p> <p>The stockmarket, of course, gyrates much more aggressively, which is what people worry about. The biggest risk for a company like Visa from a shareholder's perspective is if anything ever happened to the dividend. That would crater the share. I don't see that as a near-term risk and I think the pullback we have seen recently</p>	<p>is a good buying opportunity. This is why I am writing to you about it now.</p> <p>I recommend buying Visa up to \$150 and I have a 12-month target of \$225. My five-year target is \$500 as the market continues to expand and online and mobile payments continue to proliferate. I will keep a watchful eye on the growth of the dividend, too.</p> <p>All the best, Eoin Treacy Investment Director, <i>Frontier Tech Investor</i></p>
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Medical



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
Autodesk	ADSK	19/07/17	\$108.83	\$132.72	21.95
Illumina	ILMN	05/09/17	\$207.22	\$307.89	48.58
PureTech Health	PRTC-L	09/01/18	155.75p	170.00p	9.15
Becton Dickinson and Co	BDX	03/05/18	\$221.35	\$218.64	-0.20
Canopy Growth Corp	WEED:CN	21/03/18	C\$33.11	C\$38.30	15.68
Advanced Oncotherapy	AVO	03/07/18	48p	39.50p	-17.71
Bioquell	BQE:LN	07/08/18	440p	588.00p	33.64
Aurora Cannabis	ACB-T	19/09/18	C\$12.35	C\$6.99	-43.40

Technology



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
Garmin	GRMN US	02/08/16	\$55.75	\$64.18	24.38
Cisco Systems Inc.	CSCO:US	03/04/17	\$33.80	\$43.21	35.18%
Microsoft	MSFT	31/07/17	\$73.04	\$102.06	43.20%
Northrup Grumman	NOC US	07/11/17	\$301.66	\$249.83	-15.75%
Intel Corp	INTC	06/06/18	\$57.03	\$47.44	-15.76%
Activision Blizzard	ATVI:US	02/10/18	\$83.29	\$48.50	-41.77%
Tesla	TSLA	05/11/18	\$346.41	\$334.96	-3.31%
Science Apps Int	SAIC	07/07/16	\$58.20	\$64.16	15.57%
Alphabet	GOOG:US	04/12/18	\$1,093	\$1,068.39	-2.25%
Visa	V US	08/01/19	\$136.06	\$136.06	—

Energy



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
Ormat Technologies	ORA on NYSE	06/06/17	\$58.79	\$52.72	-9.15%
Sherritt International Corp	S CN	06/02/18	C\$1.18	C\$0.47	-60.59%

Moonshot



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
SolarWindow	WNDW	07/04/16	\$3.96	\$2.57	-35.10%
Alkane Resources Ltd	ALK:AU	05/09/16	AUS 0.31	AUS 0.19	-37.70%
Superconductor Tech Inc	SCON	03/04/18	\$9.60	\$1.38	-85.63

For the full portfolio including live prices, please visit the *Frontier Tech Investor* subscriber area. [You can view that by following this link.](#)

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