Cuffelinks
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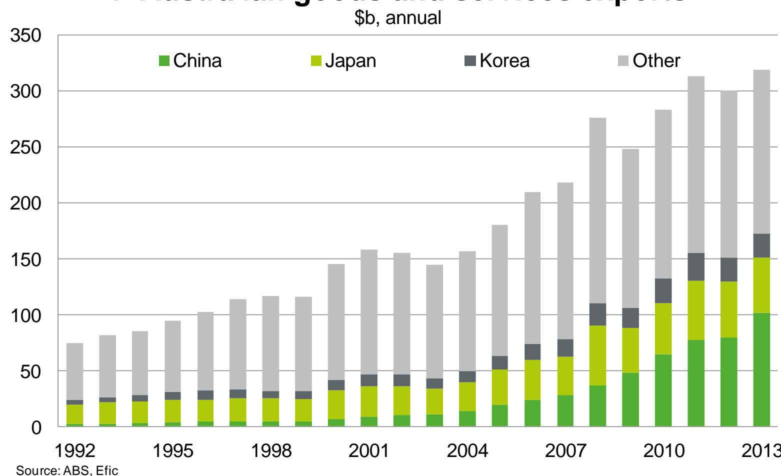
FTA trifecta opens Asian export opportunities

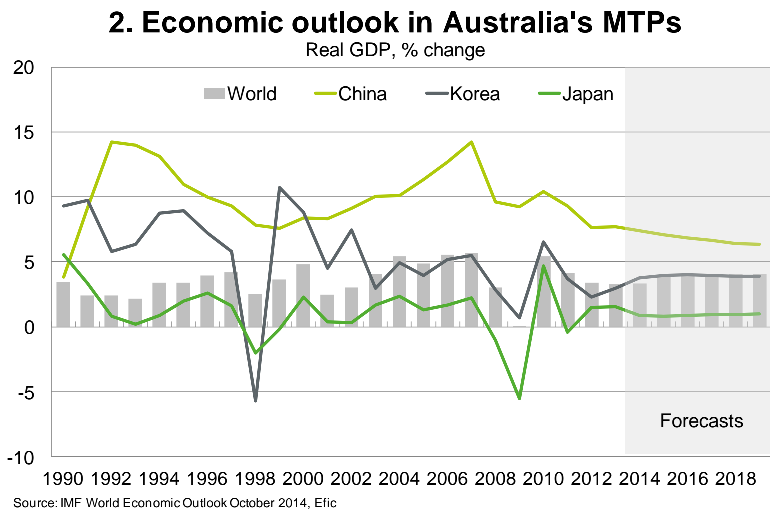
Cassandra Winzenried

Exports are increasingly skewed towards Australia's three largest trading partners, making the Free Trade Agreements (FTA) with these countries vital for further growth. China, Japan and Korea bought more than half Australia's $320 billion of goods and services exports in 2013, an increase of 300% on a decade earlier (see Chart 1). Exports to other overseas markets have not kept pace.



Pre-eminent North Asian markets

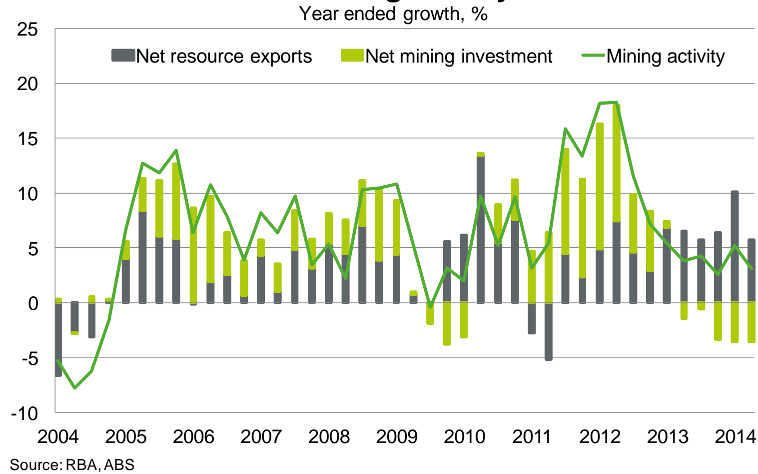
Our economic fortunes now depend on these countries more than ever. Yet in China, which buys almost a third of Australia's exports, the 'new normal' of slower growth has arrived. Authorities are aiming to stabilise real GDP growth at around 7.5% in 2014 – the slowest pace since 1999. This gradual economic slowdown is set to continue in the longer term reflecting efforts to rebalance the economy towards a more sustainable and consumption-driven model of growth. In Japan, GDP growth is forecast to stagnate at around 1%, while in Korea a modest economic acceleration is expected over the forecast period (Chart 2).



Strong export performance dominated by resources

Australia's resource exports totalled $178 billion last financial year – a 320% increase since 10 years earlier. In particular, minerals exports to China have increased almost 20-fold over the last 10 years, fuelled by China's rapid industrialisation and urbanisation. Over the same period manufactures have stalled and service and rural export growth has been anaemic (Chart 3).

But the mining boom has now ended. Mining investment growth peaked in mid-2012 and turned negative in the second half of 2013. Net mining investment (equal to real investment by the mining sector less the RBA's estimate of the imported component of mining investment) is now a drag on the Australian economy (Chart 4).



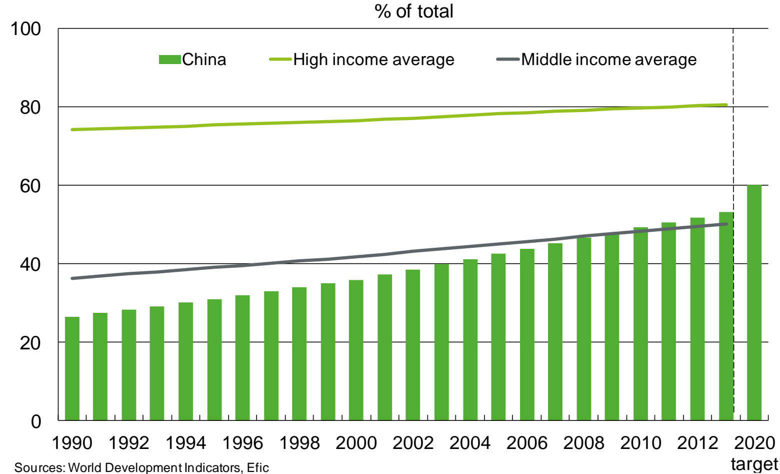
Strong export volumes are expected to continue. Rebalancing in China will not mean that its consumption of commodities will peak any time soon. That is unlikely to occur until the country's per capita income doubles from current levels. Rather, commodity consumption (globally and for China) is predicted to continue to rise, but to shift gradually toward high-grade foods and metals as well as cleaner primary energy fuels. (Higher-grade commodities are associated with the consumption-led phase of growth where higher incomes drive demand for higher-quality goods, namely consumer durables which use more tin, aluminium and zinc.)

'Trifecta of trade' will help Australia diversify and rebalance

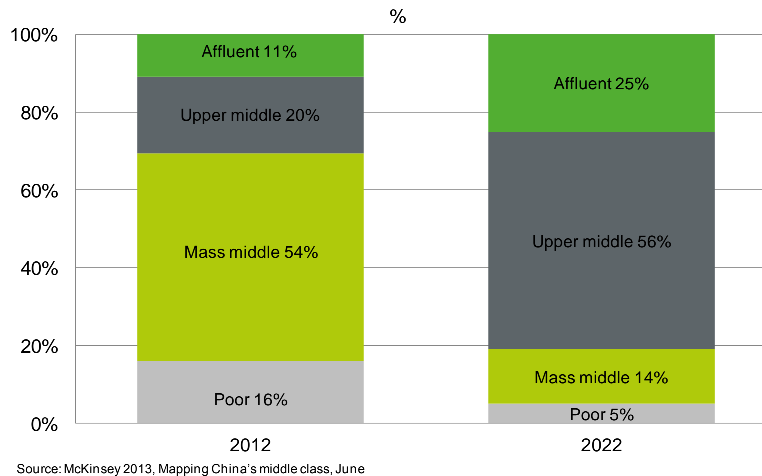
The landmark China-Australia Free Trade Agreement (ChAFTA) announced last month completes the government's 'trifecta of trade' with Australia's three largest export markets. Similar trade agreements were secured with Japan and South Korea earlier this year.

These trade deals will boost Australia's export competitiveness and promote diversification of exports, by delivering unprecedented access to North Asia's burgeoning agricultural and services markets. For instance, ChAFTA allows for 85% of Australian goods exports to enter China tariff-free upon entry into force, rising to 93% in four years and 95% on full implementation. The government stresses that ChAFTA also secures 'the best ever market access provided to a foreign country by China on services'. This will assist Australia to rebalance growth towards non-resources – an important economic cushion as the mining boom ends.

Despite gradual economic slowdown, strong Chinese demand for Australian exports is expected to continue, facilitated by trade policies but driven by internal demographics. China's middle class is expected to expand by 400 million people over the decade to 2022 fuelled by rapid urbanisation. China aims to lift the proportion of its population living in cities to 60% by 2020 (Chart 5) – this equates to moving 100 million rural Chinese to towns and cities – a project of unprecedented scale.



Due to all this the IMF expects that, on average, per capita incomes will rise 35% over the next five years. But importantly, the share of China's population considered 'upper middle class' or 'affluent' will increase from 30% to 80% over the decade to 2022 (Chart 6). These households spend less than 50% of their income on necessities and display distinctive consumer behaviour – they are sophisticated and seasoned shoppers, able and willing to pay a premium for quality and discretionary goods. As such, Chinese private consumption is expected to grow healthily – by 10% a year over the decade to 2022.



In particular, China is expected to account for almost half of a 75% increase in world food demand between 2007 and 2050. While resource constraints will curtail Australia's ability to become a 'food bowl of Asia', there may be a competitive position for Australia as the 'delicatessen of Asia'. Already Australian businesses are winning sales in niche premium markets by trading on the clean and green image of the 'Made in Australia' label. Indeed, Australia's agricultural exports to China have almost tripled over last the five years to a record $8.7 billion. China is now our most important agricultural export market. But there remains significant scope for expansion.

ChAFTA will reinforce export momentum and give Australia's exports an advantage over competitors from the US, Canada and EU. It also places Australia on equal terms with competitors from countries like New Zealand and Chile that have already negotiated trade deals with China. For instance, Australian beef exports to China are currently taxed almost 19%, while comparable exports from New Zealand enter the Chinese market almost duty-free. ChAFTA will counter this advantage over coming years, and provide Australia the same terms offered to any other country that signs an FTA with China in the future.

Supporting the ambitions of Australia's optimistic export sector

Australia's exporters are ambitiously targeting new opportunities in the Chinese market. The Australian International Business Survey, commissioned by the Export Council of Australia with the support of Austrade and Efic, found that 80% of agricultural respondents planned to expand overseas in the next two years. At 34%, China was overwhelmingly the most popular new target market.

This is despite three quarters of respondents saying that China is more difficult to do business in than Australia. Evidently the payoff is worth the challenge. The 'trifecta of trade' will improve market access and help Australian exporters realise the full potential of North Asia.

Cassandra Winzenried is a Senior Economist for Efic, a specialist finance provider for Australian export companies.

A fund manager's perspective on ASX's mFund

Helena Hill

In September 2014, the ASX launched its new Managed Fund Settlement Service (mFund) initiative. mFund enables investors to buy and sell units in unlisted managed funds through an ASX broker. The service replaces traditional paper-based processes and uses the same electronic system (CHESS) as for settling ASX share transactions. There are many expected benefits for investors, including diversification, efficiency, convenience, and speed.

Expectation of a 'slow burn'

Ibbotson decided to participate from the start because developing multiple ways to access our products puts investors in control, opening a wide range of professionally-managed investments in a way that works best for them. We're confident investors will embrace this way of investing in managed funds, enjoying the same paperless investment experience they have with share trading.

The ASX's marketing strategy is focused towards its large and engaged following of self-directed investors who seek the control and efficiency that mFund has been designed to offer. We consider this channel to be distinct from investors who engage with a financial adviser.

Our expectations are realistic and it's our belief that mFund will be a relatively slow burn. But what new investment initiative takes off overnight? Managed accounts have been available in Australia for well over a decade, and have only recently gained meaningful traction. It's a similar story for Exchange Traded Funds.

Ibbotson received flows as soon as the initiative launched, so our initial experience has been positive. We've also supported the ASX's marketing efforts by participating in a national road show with events for both advisers and investors. This was an opportunity to gather valuable information about the type of investors most interested in mFund. This insight will enable us to enhance our marketing and distribution plans to leverage the momentum of the launch.

Sorting out the technology issues

Becoming a foundation member was a learning curve for all involved. From a technology perspective, the key decision was whether to build an in-house CHESS interface based on CHESS open interface specifications, allowing us to act as a Product Issuer Settlement Participant (PISP), or whether to engage with an external service provider to act as our PISP. We chose the outsourcing route, leveraging the existing CHESS interface of our chosen service provider, MainstreamBPO. This reduced the technology burden significantly.

We settled on the sub-registrar model for integrating mFund into our existing operational processes. As part of its PISP role, MainstreamBPO maintains a sub-register of all investors accessing our products through mFund. MainstreamBPO aggregates transactions originating through mFund and pushes these through to our master registry. We adopted this model with little or no disruption to our existing unit pricing and investment administration processes.

We also had to make minor adjustments to the Product Disclosure Statements for the funds offered through the mFund service, as well as implement additional reporting capabilities to the ASX before going live. Future participants will benefit from the issues resolution foundation members have been through with the ASX and the various PISPs.

With brokers responsible for 'know your client' checks and our PISP, MainstreamBPO, responsible for processing applications, our role is to invest the application monies. This has not generated hard cost savings, but has produced efficiency gains.

Why are some brokers and fund managers not involved?

As more investors take control of their investments, particularly via SMSFs, they'll look for easy and cost effective ways to access investment solutions which diversify their portfolios. mFund provides savings for investors, enabling them to avoid wraps and platform administration fees.

It's stating the obvious that those fund managers with aligned platforms and wraps have not yet embraced mFund. They have an established distribution channel to their target audience, and so are in a position where they can wait, watch, and monitor flows. Similarly, a key determinant of mFund's success will be the extent to which investors demand the mFund capability from their online brokers.

A bigger pull (or push) factor will be needed to attract these players, which will take time to play out.

Helena Hill is Product and Communications Manager at Ibbotson Associates.

A lesson in bargaining, Medibank-style

Ramani Venkatramani

Have you ever bargained? Has that special thrill of securing the once-in-a-lifetime bargain ever travelled up your spine? Have you, as the seller, laughed behind the aforesaid bargain hunter, savouring the thrill of their hallucination?

On the other hand, have you felt the pangs of pain piercing through your veins when you realised that the wonderful bargain you bought was available at half the cost at the fixed price store, and with full warranty to boot? Or as the seller you gave away a costlier piece?

Minister Mathias Cormann, who flogged Medibank Private's Interesting Public Orgy (known as the IPO), used the bargaining method to great effect, but unlike the normal parties owning or acquiring the goods, he was neither. He acted as the agent for the taxpayers of Australia.

Even this is disputed by policyholders of Medibank. They claim that the Government never paid for its stake, and has sold their property for a cool 5 billion. Nice one, if you can get it.

So the good Senator rushes into the bazaar, where the wise, angelic or otherwise, tread warily. As those who have shopped in any Asian, South American or East European bargain basements would know, these are populated largely by touts, hangers-on, window-shoppers and price surveyors with a 1% incidence of shopper-crowd ratio.

He is promptly surrounded by merchant bankers, lead managers, brokers, accountants and advisers: 'rent-seekers' in trade parlance, who make their money regardless of whether the market stays up,

down, sideways or comatose. In fact, whether the market remains at all. The true mark of a professional being making money, regardless.

With their professional help, how much stock to unload, what preferences and discounts to offer, in what time frames and when to hang up the shingles are all decided. Brokers are caught up in this endogenic frenzy, as they bid up their clients' needs to secure firm allocations.

On the hallowed principle that 'your money is safer with me than you' (equivalent legal lingo: 'possession is nine-tenths of the law', the other 40% being consumed by counsel fees. Never count on them to count), the purchasers are asked to deposit more than they would eventually be liable for. The interest earnings would fund the Christmas party nicely, thank you.

The frenzy gets to the stage where the agent selling for the owner in the bargain basement plays, like a seasoned veteran, on the psychology of the bidders: will they sense losing out and bid for more? This is the moment you see in the souk when the shopkeeper thrashes his hands about in confected disgust, speaking in an unknown tongue. No translation needed: 'raise your bid, or lose out'. In IPOs, the strange tongue takes the form of a product disclosure statement. Like Mark Twain's classic , it is praised but never read.

During the actual sales period, the veiled threats continue. Did you hear that the issue is being several times oversubscribed? Is it likely that the issue will close earlier than the closing date? Did you know even firm allocations will have a haircut?

Like the clever shopkeeper in the souk, interested purchasers are streamed into multiple queues: pre-registered and general, stratified into policyholders, employees and the public. They may not know what either they or anyone else is doing in the queue, but it helps to behave as they did.

Subtle suggestions (or brazen shouts) about early bidders getting favoured treatment works like a treat. Everyone wants to be a favourite and rushes in, so no one is.

Come announcement time, our bargaining agent enlists, for a fee, those with the sharp pencil and the mind of an abacus to determine the basis of allocation. Like a treasurer with an unquenchable thirst for tax, he makes up a sliding scale, consisting of several tiers showing the allocation at each range: x shares up to A applied for, plus y% of any excess above A. Symptomatic of the crudity of the entire spectacle, y is usually a vulgar fraction. Are mathematicians into psychology?

People call up the brokers, the hotline and each other to understand what they got. Schadenfreude reigns: that the other mob fared worse than us is sweet music to the auditory receptacles.

On the appointed day for deferred settlement, our agent and the guy who will be left with the bathwater (a pity, really, about the baby) wear the smile of the cat that got the cream and shake up the polished bell vigorously. Something about the orgy must have polish to it, after all.

Would the heavens open up and financial nirvana be nigh? Zillions of eyes peer into the trading screen.

No record-breaking debut, this. A measly paper profit for the punter and even less for the 'savvy' institutions. As ennui sets in, the price dives below the insto-price, and with it goes the dream of powering up the portfolio performance. As the market settles back into its usual stupor, the hangers-on ready themselves for their next orgy.

As for the market price itself, it's not quite settled. Will the disaffected policyholders sue for compensation? Will they vote with their wallets and walk, destroying value?

Who knows? As the philosopher Hume taught us in epistemology, inductive inferences are worth nothing, being circular. To prove them you must believe in them.

What about Mathias, our bargain agent? He finds that bargaining, like itching, can give a pleasant sensation but only as long as the scratching continues. He should look for more. Is this the first recorded case of agency risk infecting the agent, rather than the consumer as hitherto?

Bargain bazaars always imprint their lessons:

1. Investing for the long term and reacting to the first few days' price is like planting tomatoes and uprooting them each day to see if all is well. Messy, and fruitless.

2. As in any IPO bargain, some (sellers) win; some (brokers) wine; the rest (index investors) whine. Win-win, it sure ain't.

Ramani Venkatramani is an actuary and Principal of Ramani Consulting Pty Ltd. Between 1996 and 2011, he was a senior executive at ISC /APRA, supervising pension funds.

Benefits of long term investing

Geoff Warren

My previous Cuffelinks article argued that long term investors are characterised by high discretion over their trading, coupled with a long term perspective. This follow-up sets out the advantages of such investors and the associated strategies they might pursue. Long term investing is neither easy nor a guarantee of success, but the main reason to expect it to succeed is because many markets are dominated by short term investors, implying the long term is often undervalued.

Three advantages held by long term investors draw on discretion over trading, which underwrites the capacity to maintain positions through difficult times, plus an approach to identifying opportunities that evaluates long term value or expected long term returns.

A) Capacity to invest where the timing of the payoff is uncertain – Some investment opportunities have a high probability that a payoff will occur eventually yet the timing is uncertain. That is, they can remain primarily concerned with *if, rather than when*, they get a return. Capacity to be patient and far-sighted is useful when assets are discounted because of problems that should be eventually resolved. A long term investor is able to buy and wait. Meanwhile, short term investors may avoid seemingly 'cheap' assets due to aspects such as near-term business difficulties, evident selling pressure, or the absence of an immediate catalyst for price adjustment.

B) Ability to exploit opportunities generated by short term investors – Short term investors may be required to trade or act in a short-sighted manner. This can result in assets becoming either mispriced, or offering unusually high (or low) returns. Long term investors may take the 'other side of the trade', precisely because they are not affected by the same concerns. For instance, many risk premiums arise because short term investors are averse to certain types of risks that long term investors are well-placed to bear.

C) Latitude to invest in unlisted and/or illiquid assets – While it is true that a long horizon is required to invest in illiquid assets, this advantage is sometimes overstated, and viewed too simplistically. For instance, it can be dangerous to presume that an illiquidity premium exists just because an asset is illiquid. The real advantage is that a wider range of investments and strategies is available, including: opportunities arising from imperfections in illiquid markets; capacity to add economic value through direct control; and better diversification.

Overall, long term investing offers access to a broader opportunity set. Conceptually, long term investors can do anything that short term investors can do, plus more. Eight investment strategies where a long term investor might exploit their advantages are:

1. *Accessing risk premiums* – Some risk premiums arise in part from concerns over potential for large, intermittent losses; while offering sizeable average returns for those who can hang in there. Included are market risk premium; volatility premium (accessed via volatility derivatives and options markets); illiquidity premium; and various insurance premiums, e.g. catastrophe bonds.

2. *Liquidity provision* – During market crises, long term investors may buy from investors who are required to sell due to loss of funding or pressure to rein in their exposure. Recent examples include corporate bond and US housing markets during the GFC. Conversely, they might sell into liquidity-driven booms that push prices too high, and then sit on the sidelines unburdened by compulsion to remain invested. Trading against the market during these times requires both a long horizon and fortitude.

3. *Value investing* – Value strategies often entail buying when prices are low because problems abound; and selling when prices are high because everything looks rosy. Hence value investors are typically acting against market opinion and momentum. Further, the timing of any payoff can be open-ended. There is a capacity to look through near-term pressures towards long term value and sustain a position.

4. *Exploiting pricing discrepancies across segmented markets* – Pricing discrepancies can occur across markets that are related yet segmented due to frictions. Examples include discrepancies between unlisted and listed counterparts (e.g. unlisted versus listed infrastructure), or geographical disparities (e.g. property across countries). There is often uncertainty over the mechanism and timing of re-alignment.

5. *Long term thematic investing* – Slow-moving but persistent trends accumulate over time and may be swamped by volatility over the short term. Examples might include the impact of long term macroeconomic trends, demographic changes, cultural shifts, technological developments and environmental change.

6. *Adding economic value through engagement and control* – Long term investors might generate additional returns by applying their influence towards the creation of economic value, e.g. pursuing value-added or opportunistic property investments.

7. *Investing in complex assets* – Complex assets can be attractively priced as a consequence of opaqueness, especially if uncertainties might take a long term to resolve. Investors with the resources to perform in-depth evaluations may benefit from waiting for the payoff.

8. *Dynamic strategies* – Dynamic strategies of buying when expected returns are high and selling when they are low often amounts to a counter-cyclical approach that stands against the market. Dynamic strategies also incorporate holding 'cash as an option', thus keeping some powder dry.

In summary, most of the benefits of long term investing stem from a preparedness to take positions related to the actions or aversions of short term investors. Many commentators consider 'short-termism' as pervasive and a scourge. Another perspective is that short-termism provides a source of opportunity for those willing and able to adopt a long term approach.

Geoff Warren is Research Director at the Centre for International Finance and Regulation (CIFR). This article is for general information purposes and readers should seek independent advice about their personal circumstances.

CIFR recently collaborated with the Future Fund on a research project examining long term investing from an institutional investor perspective. This is the second in a series of Cuffelinks articles aiming to bring out some of the key messages for a broader audience. The (lengthy) full report, which comprises three papers, can be found at: http://www.cifr.edu.au/project/T003.aspx

'Tis the season, and aged care may be on the wish list

Rachel Lane

This article is the final in our 3 part series on the different ways people receive aged care in Australia and the timing is just right. For many people, amongst the stress of cooking, buying presents and visiting family and friends, this Christmas will be the worry of finding aged care in the new year for a loved one.

Many of us firmly announce that we have no intention of moving into an aged care facility: "An old people's home? Not me!" More than one-third of men and one-half of women who reach the age of 65 are expected at some time to live in aged care. And often, when they take the time to investigate their options, they are pleasantly surprised.

Aged care accommodation costs

Significant reforms to the aged care industry occurred on 1 July 2014. These reforms changed the amount and way in which people can pay for their accommodation and the means testing arrangements for calculating their cost of care.

Let's start with accommodation payments. Apologies for the jargon and abbreviations but anyone looking for aged care solutions has to get their head around them.

Aged care facilities publish the market price of their accommodation on their websites, in their marketing materials and on the government's My Aged Care website. The published price takes two forms: the lump sum amount (known as a Refundable Accommodation Deposit or RAD) and the daily charge amount (known as a Daily Accommodation Payment or DAP). The resident can choose to pay for their cost of accommodation by RAD or DAP or in combination. This includes the ability to have the DAP deducted from the RAD. The DAP is simply calculated on the unpaid RAD amount at 6.63%.

For example, the facility may have a market price of $400,000 RAD or $72.66 per day DAP but the resident may choose to pay a combination of $250,000 by RAD and $27.25 per day by DAP. A resident can also choose to have their DAP deducted from their RAD. Where this is the case a recalculation occurs at the end of each month for a new DAP amount. Essentially it is a compound interest effect to cover the shortfall, not unlike a reverse mortgage. Aged care facilities set their own price up to $550,000, beyond this the price needs to be approved by the Aged Care Pricing Commissioner.

Contributing to the cost of care

When it comes to making a contribution towards your cost of care, there are three payments.

The first is paid by everyone and is known as the Basic Daily Fee. It is set at 85% of the Age Pension, currently $47.15 per day and contributes towards the cost of meals, laundry, utilities etc.

The second is the Means Tested Care Fee. This is an asset and income assessed fee, with the amount the resident contributes offsetting the government funding. For example, if a resident had a means tested care fee of $40 per day and the facility was due to receive $70 per day of funding for the resident, the facility would receive $30 per day from the government and a letter advising that the resident can afford to pay the other $40 as a means tested care fee.

The formula for determining the means tested care fee is:

> *50c per dollar of income above $25,118.60 (Single) $24,650.60 each (Couple) plus*
> *17.5% of assets between $45,500 - $155,823.20 plus*
> *1% of assets between $155,823.20 - $376,469.60 plus*
> *2% of assets above $376,469.60*
> *Minus $53.04 per day*

What are considered assets and income?

Income is the same assessment as for pension; deeming on financial assets, taxable income on trusts and investment properties etc **plus** pension entitlement (note the pension supplement is not included)

Assets are the assessable assets for pension; bank accounts, car, contents, investment property etc **plus** up to $155,823.20 of the former home **plus** any amount paid to the aged care facility as a Refundable Accommodation Deposit (RAD)

The former home is exempt if a protected person is living there. A protected person is a spouse or dependent child or in other circumstances a carer or close relative.

Where the resident's means tested amount is less than $53.04 per day they are classified as a 'low means' resident and the calculated amount is their Daily Accommodation Contribution. You can read more about Low Means Residents in our article here.

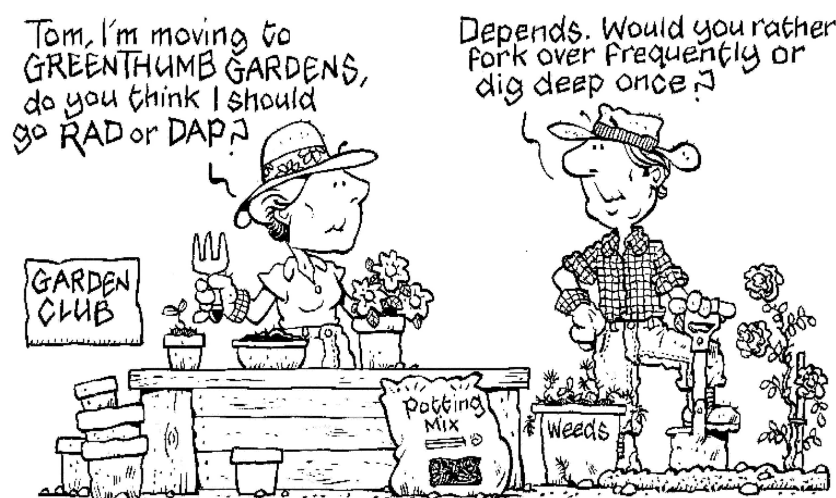
The third fee is the 'extra service' or 'additional service' fee. These fees relate to a higher standard of accommodation and lifestyle services or services that are being provided on a user pays basis.

For example, a resident who moves to an extra service bed, paying $15 per day as an extra service fee, will be receiving a higher standard of accommodation and also receives a choice of meals and a glass of beer or wine with dinner. The extra service fee ranges from around $15 per day to $140 per day and the standard of accommodation and services is commensurate with the price. Residents who choose to live in extra service accommodation cannot opt out of the extra service fee even if they no longer use some or all of the lifestyle services.

Additional services, on the other hand, are not linked to a higher standard of accommodation, they are simply lifestyle services provided on a user pays basis. For example, a resident may choose to receive the newspaper and a glass of wine with dinner and be charged $12 per day. If the resident no longer wishes to receive the services they can opt out, likewise, if they wish to receive more services they can opt in.

It's not simple but it's supposed to offer choice

People now have greater choice about the type of care they access and the way in which they pay for it. However, with choice comes the responsibility to make informed decisions. The way in which someone chooses to fund their care can have far-reaching implications from the cost of care itself, their eligibility for pension, their liability for tax, their ability to afford care in the longer term and the assets left to their estate. There is no substitute for specialist advice in this complex area.



Rachel Lane is the Principal of Aged Care Gurus and oversees a national network of financial advisers dedicated to providing quality advice to older Australians and their families. Read more about aged care facilities in the book "Aged Care, Who Cares; Where, How and How Much" by Rachel Lane and Noel Whittaker. This article is for general educational purposes and does not address anyone's specific needs.

Howard Marks on the unpredictability of commodity prices

Howard Marks of Oaktree Capital Management gave Cuffelinks exclusive permission to reproduce this presentation on risk in September 2014, following a meeting with Chris Cuffe.

He spoke at the Goldman Sachs Financial Services Conference in New York on 9 December 2014 to update his views. Oaktree Capital is a major distressed-debt investor, and Marks told the conference that he is buying bonds of energy companies as the oil price falls. High-yield bonds of energy companies have fallen by about 12% in the last few months, although he acknowledged that some leveraged companies will struggle to service their debt.

At the New York conference, Marks said:

"Six months ago, you wouldn't have said there are opportunities to invest in the energy industry. It looked like a booming industry. Today, there clearly are, and they may get better from our standpoint ... I pretty much tend to the big picture. And I think that the most important single question that any fund manager or portfolio strategist has to answer at any point in time is whether to be on offense or defense and how aggressive, how defensive. And I believe that if you get that question right, then you don't have to get security selection and selection of strategies and managers exactly right. And vice versa, if you get that wrong all the security selection you do in the world isn't going to help you, probably. So, I tend to spend my time on the big picture. And while one of the tenets of our philosophy is that you can't see the future, we believe that by judging from what's going on around us at the present time we can make some appropriate adjustments."

As Marks said in his previous presentation on risk, he prefers to stay out of positions with a higher likelihood of unforeseen risk. "The world can adjust to the things it can think about, but there's always the possibility of the unforeseen. And I'm the dead-set against the efficacy of forecasting. And if you need any evidence, think back six months. Where were the people who predicted that oil would go down 40%? I would imagine that oil was $110 and the bulls said it would go to $112, and the bears said it would go to $108, where are the people who said it could go down 40%? We shouldn't think we know what's going to happen in the future. Mark Twain said, "It's not what you don't know that gets you into trouble; it's what you know for certain that just ain't true" ... I put out a memo on gold about this time in 2010, and I said there's nothing intelligent that can be said about the price of gold. And you can't predict the price level of a good that does not produce income. And I think it's true in gold and I think it's true in oil. And what's a low price for oil? What's a high price for oil? Who knows? Why was oil at $110 six months ago? And aren't those reasons still true today, with it at $60? And the people who at $110 said, oh, I missed my chance to buy oil at $100. I'm kicking myself. I hope it gets backs there. Have they bought oil at $65? The answer is, no, because there's no place you can get comfort on the price of a commodity, in my opinion."

This extract is for general information purposes only and does not address any personal circumstances.

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