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This Week's Top Articles

How is Trump driving high business expectations?

Miles Staude

The surprise election of Donald Trump electrified financial markets and pushed the Dow above 20,000 for the first time. The prospect of the Republican Party controlling all three branches of the US government, combined with Donald Trump's fiery pledges to cut corporate tax rates and embark on large-scale infrastructure spending programmes, has driven equity markets, the US dollar and US interest rates significantly higher. Financial markets around the world now anticipate substantial fiscal easing and a programme of deregulation under the new administration.

The segment of the US economy most buoyed by the election result is small business. This section of the economy was frustrated by the re-election of Barack Obama in 2012 and the resulting political stalemate that followed. In contrast, the election of Trump, with his narrative of deregulation, lower taxes and the repatriation of American jobs, has driven future expectations in this part of the economy to near euphoric levels.

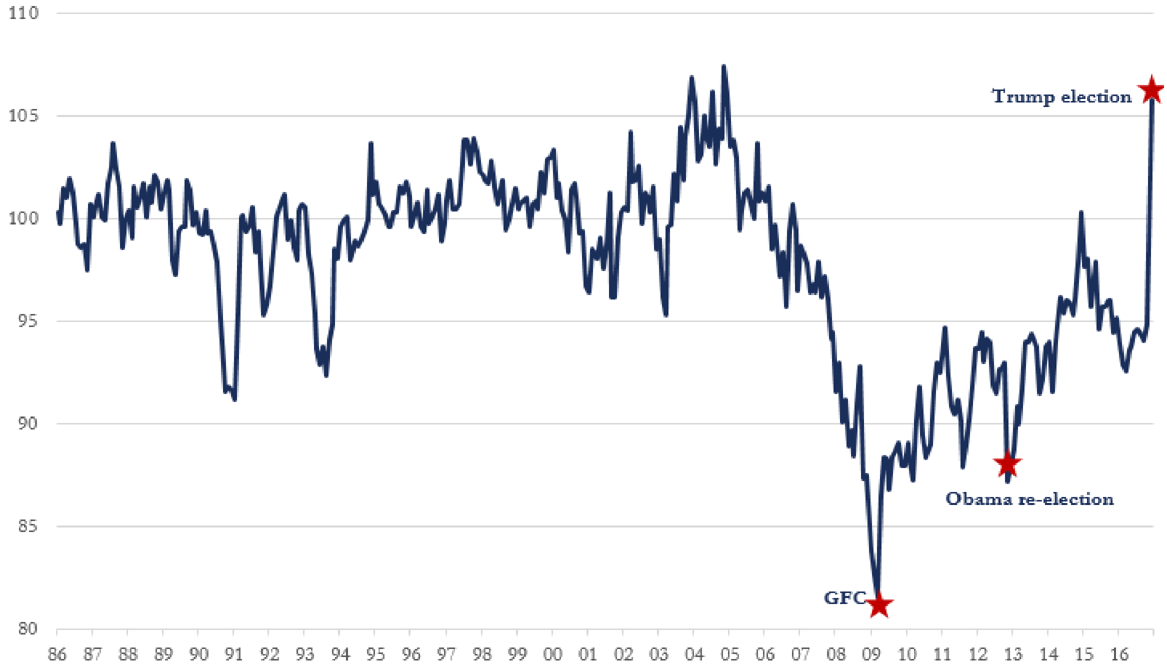
Maximum business optimism

The chart below (next page) shows the US National Federation of Independent Business (NFIB) Small Business Optimism Index, for which data has been collected for since 1973. In December 2016, the month following Trump's election, the index rose to 105.8, the highest reading since December 2004.

On a month-on-month basis, two of the 10 underlying components in this index accounted for 73% of total index gains: the outlook for business conditions and expectations for real sales growth.

Small business accounts for 49% of private-sector employment in the US and 46% of private sector output. It is a section of the economy that feels it has largely missed out on the current economic expansion. Aggressive monetary easing from the US Fed has pushed asset prices to record highs and interest rates to effectively zero (in real terms) for large borrowers. However, such actions have a limited impact on small businesses which hold few assets and which, eight years after the financial crisis, still struggle to secure financing.

NFIB Small Business Optimism Index



Source: NFIB Small Business Trends, December 2016

The bullish arguments underpinning the current market rally are thus based on the idea that the small business sector might now begin to participate in the economic recovery in earnest. Such participation could create a virtuous self-reinforcing cycle, with increasing aggregate demand putting to work latent economic capacity and lifting employment and wages, the effect of which would be to further increase aggregate demand. The idea is thus that the small business sector might now provide a new leg to the current economic expansion (already the third longest post-war US expansion on record) and the equity bull market that has ridden alongside it.

The audacity of hope

Sentiment-driven market rallies ultimately require the fundamentals to follow. The NFIB Small Business Optimism survey consists of 10 underlying index components, and it is telling that almost all of its gains have been driven by expectation components as opposed to hard metrics such as capital spending or employment gains. The NFIB report notes,

"Optimistic consumers and business owners are more likely to bet (spend and hire) on a future that seems to hold promise, but to maintain the enthusiasm, reality will play an important supporting role. The appearance of a new customer is much more powerful than the expectation of one".

Since the election of Trump until the time of writing (January 26), the S&P 500 has risen by 7.9% while the Russell 2000, an index that measures the small-cap segment of the US equity market, has risen by 16.0%. In tandem, US government 10-year yields have risen by 0.66%, while the US dollar index reached a 14-year high during December, although it has since retraced some of those gains. These are not insignificant moves and it is worth reflecting on what markets have now priced in, ahead of any actual action being forthcoming.

Whatever your views on Trump, he has put forward scant detail on what his economic policies will entail and which ones he will actually pursue (can you simultaneously build a wall, repeal Obamacare and cut corporate taxes?). It is fair to wonder therefore, how much of his agenda he will actually be able to implement.

In 2008, Barack Obama arrived into office also promising a revolution in Washington. Like Trump, he too led a party that controlled all three branches of government. Eight years on, few people today would say that Obama's legacy has matched his incoming rhetoric of reform. Unlike Obama, Trump arrives into office with the lowest approval ratings ever for an incoming president.

Only Donald Trump (and hopefully Donald Trump) knows what a Trump presidency entails. Since his election, the market has broadly had to consider three key new policy agendas for the incoming administration: i) growth-supportive fiscal easing, ii) increased market protectionism and iii) new geo-political concerns.

To date the market has focused almost exclusively on the first of these. While fiscal easing certainly has the potential to stimulate growth, the established economic consensus is that protectionist policies shrink the aggregate economic pie. Meanwhile, it will be instructive to see how markets respond to, say, a military incident in the South China Sea.

For the market rally to sustain itself and move higher, reality will need to catch up to hope. Donald Trump is certainly a new kind of politician, but his promises to deliver a new kind of politics are not. Markets are probably correct to be anticipating a programme of (unfunded) fiscal stimulus. However, how much of this is already in asset-market pricing, and what is the impact to US growth and market sentiment from the enactment of some of the protectionist policies Trump has championed?

Miles Staude is Portfolio Manager at the Global Value Fund (ASX:GVF), which he manages from London. This article is the personal opinion of the writer and does not consider the circumstances of any individual.

Navigate the 2017 super law changes with confidence

Monica Rule

Every SMSF member needs to understand what the coming superannuation changes mean for them to mitigate against any negative consequences the new laws might create. SMSF members should take action to ensure their superannuation continues to grow in the most tax-effective way.

Transfer balance caps

The change most people are familiar with is the $1.6 million transfer balance cap. For the sake of convenience, I will simply refer to this as the 'cap'. What you may not know is that the cap will apply in **two instances**.

First, it is the limit on the amount of net capital that can be placed in an SMSF member's pension account where the earnings are tax-exempt. Amounts above the cap need to be moved to the accumulation phase or taken out as a lump sum.

The second instance is where the cap will apply to a member's total superannuation balance. If a member exceeds $1.6 million in their superannuation balance, they will be prevented from making further non-concessional contributions into their SMSF.

However, there are some contributions which do not count towards the $1.6 million pension cap or superannuation balance cap, as described below.

Exceptions and limitations

Compensation payments for personal injury received by SMSF members and contributed into their SMSFs are not counted towards either of the superannuation cap or the pension cap.

On the other hand, if a small business taxpayer transfers the proceeds from the sale of active assets up to the value of $1,415,000, or capital gains from the sale of an active asset of up to $500,000 into their SMSF (under the Small Business CGT concessions) the contribution will count towards their superannuation balance. If the amount exceeds $1.6 million, then the member will be restricted from putting any more non-concessional contributions into their SMSF.

For SMSF members turning 65 during the 2016/2017 financial year, there will be a transitional non-concessional bring-forward cap of $460,000 or $380,000 depending on when the bring-forward cap was triggered. To take advantage of the full $540,000 cap, members will need to make the whole bring-forward, non-concessional contribution of $540,000 before 30 June 2017.

There will also be a $500,000 limit that stops members from being eligible for the catch-up concessional contributions, where they can use any unused concessional contributions cap, from 1 July 2018, on a rolling basis for up to five years.

Where an SMSF member exceeds their $1.6 million pension cap by up to $100,000 at 30 June 2017, the new law allows the member six months to remove the excess from the member's pension account. However, the member will still be recorded as having exceeded their $1.6 transfer balance cap and will not be eligible for any indexed increases of the cap in the future, even if they reduce their pension account balance below $1.6 million.

Members need to be aware that withdrawals from their pension are recorded differently depending on the type of withdrawal. While a partial commutation reduces a member's $1.6 million pension cap, an ordinary pension payment does not. This is an important distinction for members who want to put more money into their pension account.

Reversionary and death-benefit pensions

Reversionary pensions and death-benefit pensions are also treated slightly differently under the $1.6 million pension cap. Although both pensions count towards a dependent recipient's pension cap, reversionary pensions are not counted towards the cap until 12 months after the deceased member's death. The amount counted towards the cap also differs. For a reversionary pension it is the amount in the deceased's account at the date of death whereas, with a death-benefit pension, it is the accumulated amount when it is paid to the dependant.

Estate planning also needs to be considered more carefully where the deceased member's children receive their superannuation entitlements. The children may not be able to take a pension of up to $1.6 million, or may be able to take a pension in excess of $1.6 million, depending on whether the deceased was in receipt of a pension at the time of their death.

While the changes may cause concern, knowledge is the best defence. Understanding how the changes will apply to you, and taking early action will help you to navigate these changes with more certainty.

Monica Rule is an SMSF Specialist and she will be running a webinar on the superannuation changes on 23 February 2017. For more information, go to www.monicarule.com.au. This article is an understanding of the rules current at the time of writing.

New superannuation doors opening from 1 July

Graeme Colley

From 1 July 2017 onwards, new superannuation measures will make it easier for some people to save for retirement, particularly those who've struggled to contribute in the past.

Tax-deductibility of super contributions

Under existing rules, tax deductions for personal super contributions are limited to those earning less than 10% of their income from waged employment, which in practice means people who are self-employed or who receive most of their income from investments.

From 1 July 2017, the 10% restriction will be lifted and anybody will be eligible to claim the deduction.

This presents a great opportunity, particularly for part-timers, casuals and those between jobs, who have traditionally struggled to contribute to super.

Case study - Fran

Fran has had a number of casual and part-time jobs and is expecting a baby in December 2017, at which point she'll stop working for the rest of the financial year. Some of her casual jobs were for one or two days per week which meant she earnt less than the monthly income threshold for superannuation guarantee payments.

From 1 July 2017, Fran will be able to make tax-deductible super contributions up to the concessional contributions cap. This will provide her with a tax incentive to top up her superannuation.

Depending on her earnings, she may also consider making non-deductible super contributions to qualify for the government's co-contribution. The maximum co-contribution payable is $500 based on a personal contribution of $1,000.

Carry-forward rule

Another new measure, effective 1 July 2018, is the ability to carry forward unused concessional contributions for up to five years.

If Fran is unable to make contributions in a year that she does not work, she can carry forward the unused amount into a subsequent year (FY 2019/20 and beyond), provided her total super balance is less than $500,000.

For example, if Fran's unused concessional contribution entitlement is $20,000 in 2018/19, she can carry it forward to make $45,000 worth of concessional contributions in 2019/20 ($20,000 carried forward plus $25,000 pertaining to 2019/20).

The new measures present a good opportunity for SMSF trustees and their advisers to consider, as well as anyone saving for their retirement.

Graeme Colley is the Executive Manager, SMSF Technical and Private Wealth at SuperConcepts, a leading innovator in SMSF services. The material in this article is for general information and does not consider any person's investment objectives.

Fintech platforms disrupting small business finance

Mary Paterson

The term fintech covers a wide and ever-growing range of technologies. This article explores some of the biggest game-changers, and how they're impacting the way businesses are managing their financial affairs.

Treasurer Scott Morrison said of fintech in 2016:

"It has the power to completely bring in a new environment of competition. For small businesses out there who find it difficult to attract capital, for large government agencies who are struggling with convoluted and difficult payment systems … to medium-sized businesses that are trying to bring their products up to date and to connect with their consumers in ways they haven't before."

Then on his visit to a G20 Conference on digitising finance and financial inclusion in Germany on 27 January 2017, he was even more effusive in showing his passion for fintech:

"FinTech is the way of the future. There is, without doubt, a paradigm shift taking place. But while we cannot go backwards, the success of FinTech is not guaranteed. It is important that all of us work together, across borders, to help build this industry so that it can deliver for consumers, for businesses and for our respective economies. That is what this moment, this opportunity, demands of us."

The advantages of digital wallets

Payment systems such as PayPal, and digital 'cryptocurrencies' like Bitcoin, enable anyone to do business without involving a bank, cutting out the fees, delays, and restrictions imposed by traditional financial institutions, and enabling truly global commerce.

Digital payments stimulate sales because they make it fast and convenient for consumers to purchase goods or services, which is why many businesses across every sector now accept them as an alternative to credit card payments and direct bank deposits.

One of the greatest advantages to digital payments is that they facilitate one-tap, on-the-go transactions via mobile device, enabling businesses to capture prospects at the moment of impulse and immediately convert them to customers. With 79% of Australians now owning a smartphone (and collectively looking at them 440 million times a day), mobile commerce is a channel no modern business can afford to ignore.

Blockchain is going mainstream

Blockchain is a database or 'public ledger' originally developed by Bitcoin as a way of verifying transactions but it's rapidly being adapted to other purposes and it's even being heralded as a technological revolution.

Blockchain allows people or businesses to transfer any item of value – from intellectual property to money or physical assets – instantly and securely, without the need for a bank or other trusted third party.

Offering security over personal information and transparency over the actual transaction, blockchain technology is already being adopted by financial giants like JP Morgan, with global consultancies such as PwC developing capabilities to help businesses across the world tap into its potential.

Crowdsourced funding platforms

Crowdsourced funding operates in two main areas: equity-based investing and peer-to-peer lending.

Crowdfunding platforms facilitating both types of funding are edging out the banks as the first port of call for businesses looking to raise finance, for three main reasons:

- Speed – crowdsource funding platforms tend to be more agile and fast-moving when assessing applications
- Accessibility – for growing businesses that don't meet the conservative criteria of banks or venture capitalists, crowdfunding provides an opportunity to access cash from investors with broader appetite for risk
- Cost – established businesses can benefit from cutting out the time and costs involved in traditional equity raising campaigns, and sharing some of the savings with investors.

Alternative lending in Australia

There are more than two million small businesses in Australia, and more than half of them have some form of debt facility. Borrowing is one route for small businesses to upscale performance or expand into new markets.

The cash injection from a business loan allows businesses to take advantage of too-good-to-miss opportunities, like the chance to buy out a supplier or competitor, or buy equipment or inventory.

Bear in mind these three fundamental principles:

- The type and term of finance must match the business need

Long-term needs, like buying property, need to be matched with long-term financing like a mortgage or term loan, to avoid needing finance again when the loan matures. On the other hand, fluctuations in working capital should be covered with a flexible form of short-term financing, like an overdraft or business credit card.

- Keep the cash flowing

Running out of cash is the number one reason small businesses fail. A profitable business can be brought to its knees by late-paying clients or seasonal fluctuations, so it's essential to have funds available when needed. But flexibility comes at a price, as at-call financing can be more expensive.

- The higher the risk, the more the cost

There are many different types, terms and structures of business financing, but one simple rule underlies them all: the bigger the risk, the more the loan will cost. Offering collateral can give rise to lower rates than on an unsecured loan. Super-risky financing options like Merchant Cash Advances can attract interest rates of up to 200% per annum because the lender has no recourse if sales are insufficient to repay the advance.

Instant bank transfers in 2017

The New Payments Platform (otherwise known as instant bank transfers) will go live in 2017 making Australia one of only three countries worldwide that do this (along with Sweden and Mexico).

As reported in the Sydney Morning Herald here are the key features that will be switched on:

1. 24/7, 365 day instant transfers (no weekend or public holiday delays).
2. New 'Identifier' technology that eliminates the need to know someone's BSB or account number.
3. The possibility for new payment apps and an overhaul of the direct debit system.
4. Multiple payments for complex purchases (like buying a new car) can be synchronised simultaneously, including insurance payments for example.

5. Changing financial service arrangements will be a lot easier as the 'Identifier' technology will remove the need to update direct debit authorities.

Check the official New Payments Platform site for more information.

A business that is profitable on paper can still end up bankrupt if the cash doesn't come in on time to pay the bills. The alternative finance market can help with accessible finance options to small businesses.

"The speed of your success is limited only by your dedication and what you're willing to sacrifice" **-** Nathan W. Morris

Mary Paterson is a freelance journalist who writes about small business finance from personal experience.

Careless estate planning: how an artist can lose their legal voice

Donal Griffin

When a famous person dies, particularly if they were involved in producing art of any type, the legal implications are like any death, but on steroids (or stronger). Soon after George Michael was found dead on Christmas Day 2016, different players involved in his affairs clashed. A boyfriend allegedly released some of his music on the internet.

After a musician or actor dies there is often huge demand for their work. It is estimated that the value of George Michael's estate increased by 10% or more than $10 million after his death. Whether copyright material is released to satisfy sentimental demand or financial motives, there are winners and losers financially. This creates conflict. While the conflict is in the public eye it increases the tension, but we suggest that this conflict is there even if the person is not famous.

Enforceability of legal contracts

When someone dies, they obviously can no longer enter into legal contracts. Contracts executed by them prior to their death or pursuant to appropriate agency agreements, if properly drafted, can bind their legal estate. In order to cash in on the commercial opportunity of artistic deaths, it is important that a trusted person is able to bind the estate. That person is usually the person the appropriate court declares is their lawful executor or administrator. The word 'lawful' is key here because there can be competing applications to be the deceased's legal personal representative.

There may be allegations that the person was not of sound mind when they named an executor in a will or that such an appointment was later revoked or that the person is disqualified from acting in that capacity. If the deceased does not have a will, in NSW the person with the largest interest in an estate will usually be their legal personal representative. This means that the dispute comes down to who was the deceased's de facto spouse or which brother or sister first makes an application to the court.

There is often a perception that being the legal personal representative gives a person an advantage. It is certainly true that they can deal with the deceased's assets but they may also have to account for same.

Sort it out in a valid will

All of this would be simpler if the deceased named people who they wanted to be their executor, and who agreed to play that role, in a valid will. David Bowie apparently named his business manager and his lawyer as his executors. However, it is understood that his lawyer has renounced so will not be the executor. We can only guess at whether this is to manage a conflict of interest.

In our experience, clients select their executor carefully to ensure that the people who step into their vacated shoes are able to work well together and are disappointed if one of those people decides not to act. It may be that the 'check and balance' in that case is no longer present if there is only one executor. How sure are you that you have got the combination of executors who will act for you?

Some professionals charge large fees for acting as executor. It is reported that Michael Hutchence's estate's legal fees were more than $670,000, leaving an insubstantial amount for the beneficiaries.

Usually, being an executor of an estate in which you are not a beneficiary is a thankless task. We currently act for two executors for a deceased alcoholic. One of their motives for acting is that the residuary beneficiary of the estate is a charity which they support. They have had to organise a funeral, pay for it (so they are owed money) and sign countless forms and submit certified copies of identification documents to banks and super funds.

The cases can be even more complicated if there are tangible and intangible assets such as copyright and contractual rights. Closer to home, Max Dupain's *Sunbaker* photograph was caught up in a 1992 dispute about the distribution of his photographs and negatives between his widow and his collaborator.

Properly representing the deceased

A risk for an artist is that their executor will collude with the beneficiaries to deal with their art in a way that is contrary to the wishes of the deceased. If there is no-one acting as the conscience of the deceased, who will have a right to call 'foul'?

The solution in many cases may be to have a 'literary executor' who has clear authority, for an agreed fee, to manage commercial and artistic matters for the deceased. Pending a grant of representation, this person could issue strong warnings to those misusing the deceased's copyright and, on becoming the legal personal representative, call in the assets of the estate and manage the estate for the benefit of all of the beneficiaries. The literary executor can be answerable to third parties with the result that the wishes of the deceased, their public and their beneficiaries are best managed.

Donal Griffin is a Principal of Legacy Law, a legal firm specialising in protecting family assets. This article is educational and does not consider any individual circumstances.

Superannuation and an outcomes-focused world

Jeremy Duffield

As the super industry shifts from a focus on accumulation to the full savings lifecycle, with an emphasis on retirement income, the measures the industry needs to gauge progress must change too.

The newly minted government-defined objective of super points the way. The objective of super is "to provide income in retirement to substitute or supplement the age pension."

This objective aligns with the views in an excellent paper, *Governance: The Sine Qua Non of Retirement Security*, by Michael Drew and Adam Walk, which argues that the fiduciary focus of defined contribution retirement plans has to be on outcomes of the process, not just on inputs. They argue the industry has been overly focused on fund returns as the key measure and not enough on the retirement incomes likely to be earned by members. Following Nobel Prize winner Robert Merton, they claim "retirement income is the true measure."

Put it in terms we each can relate to as participants in the super industry: do we care about what time-weighted rate of return the fund earns (or peer-relative performance) or instead the stream of retirement income we can draw down during retirement?

Now, most individuals don't currently have access to forecasts of what their super savings will likely amount to as income streams during their retirement. And neither do trustees of most superannuation funds have good analysis of the likely retirement outcomes of their membership base.

Outcomes-based objectives

That's got to change, even with the government's minimalist definition of super's objective. Both individuals and funds need to get a handle on the likely income streams in retirement. For funds (and individuals) with greater ambitions, like having a 'satisfactory' or 'comfortable' income in retirement, the need to switch to outcomes-based objectives is even more obvious.

What are the right measures for a fund that seeks to help its members get strong incomes in retirement? In my view, funds should be forecasting expected retirement incomes for all members, in effect establishing a baseline set of expectations for its membership. Funds should then set a course which seeks to improve upon that baseline and then measure progress.

Expected retirement incomes could be measured absolutely or against relative indicators such as standard of living measures, like the ASFA Standards, or against replacement ratios (the percentage of pre-retirement income earned during retirement). What percentage of our members are expected to meet the ASFA 'modest' or 'comfortable' income during retirement? Or what is the distribution of retirement income forecasts versus current income levels? (for example, how many of our members will make a replacement ratio of 70% of pre-retirement income?) What percentage of our members will be on the full and part age pension?

Of course, retirement income forecasts are not certain predictions. We live in a stochastic world of unknown outcomes. So it's important that we think in terms of a range of outcomes and the risk to our members of not achieving adequate retirement income levels. We need to think in retirement income security terms, not only in portfolio risk terms, then members can trade off appropriate portfolio risk and retirement risk decisions.

Some trustees may think it's too difficult or uncertain to forecast the future for each member, but well-established techniques are available.

Outcomes-based measures change management

Instead of focusing on what the fund does – manage portfolios, administer accounts – executives will drive greater focus on what the member does which impacts their retirement outcomes. The trustee will think more about encouraging beneficial member behaviour to drive better outcomes.

For example, is it most important to offer a single strong MySuper default or better to encourage members to be in an investment option that suits their own needs to produce a target retirement income? Technology exists to give members personalised defaults.

Also, is it better to offer members more expensive actively-managed options or to invest more in passive funds and use the fee savings for delivering individualised guidance to the members on establishing and achieving their retirement income goals? Is there more pay-off or 'alpha' in good advice than in active equity management?

And will a focus on retirement outcomes drive a frank conversation about what members need to save to get a satisfactory retirement income? The way the industry tiptoes around the issue, it's like we're afraid to tell anyone that the guarantee charge's 9.5% (6.65% to 8.06% after tax) contribution rate is just not enough.

Moving to outcomes-based measures of success in providing retirement incomes to members will be a positive development. It will not only drive alignment with government objectives but ensure that we're focused on what really matters to our fund members.

Jeremy Duffield is Co-Founder of SuperEd. He was the Managing Director and Founder of Vanguard Investments Australia and he retired as Chairman in 2010.

Unusual trends give investing tailwinds

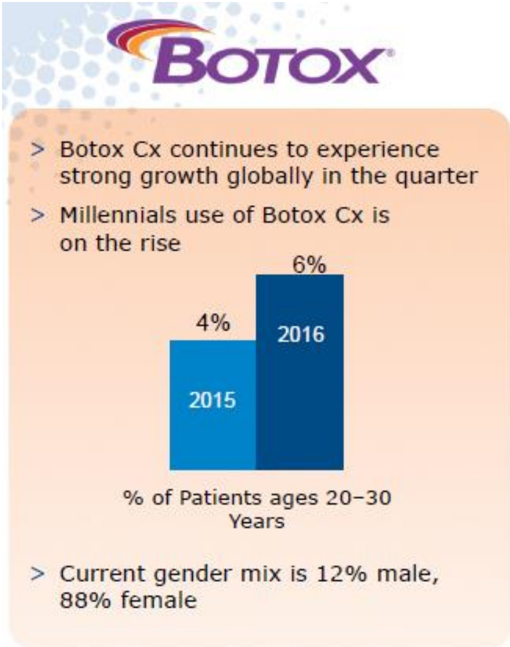
Jason Sedawie

Macro investing is hard, and not many investors were well positioned for Brexit or Trump. A more consistent method is investing behind trends with tailwinds. Two of the more unusual trends I follow are the selfie and e-gaming or e-sports.

Everyone's a paparazzo

We have all witnessed the selfie effect; with a phone and camera in our pocket everyone has effectively become a member of the paparazzi. The rise of the selfie (there are over 280 million posts #selfie on Instagram) has led to the success of fast fashion retailers like H&M and Zara that are famous for quick inventory introduction. With everyone carrying a camera, millennials expect their photo to be taken every day. This trend has made the founder of Zara (Inditex) Amancio Ortega one of the richest men in the world.

It's also no surprise that Microsoft found our average attention span had decreased from 12 seconds in 2000 to 8 seconds today. We are so distracted by our smartphones that users struggle to concentrate.



Deloitte Global estimates that in 2016, 2.5 trillion photos were shared online, a 15% increase over the previous year. Facebook and Instagram give direct investment exposure to this trend, while beauty stores are a good downstream investment. Stores like Sephora are extremely busy though as a division of LVMH, we can't make a direct investment. Their competitor Ulta Salon (ULTA) was one of the strongest performers of 2016. Ulta Salon is only in the US but it has 21.7 million members in its loyalty program. We still need to go to salons and can't get a haircut or colouring on Amazon.

The craziest effect has been the increased use of Botox. Some 6% of customers are aged between 20 and 30, up significantly (see graphic). The pressure is greatest in Silicon Valley where the bias towards young people and startups is extreme. Older engineers are pressured to look younger, and while its illegal, most Silicon Valley engineers presume older workers have outdated skillsets. Thankfully the opposite applies to finance. Experience and grey hair is viewed as a good thing.

Gamers the new sport stars

E-sports is the other strong trend. Video gaming has grown from a niche to a form of mass entertainment for millennials. This year, HIS forecasts 6.1 billion hours of viewing increasing to 9 billion in 2020 after growing 750% over the past four years. Audiences are just as large as sports and similarly franchises are being created like traditional sports with teams based in cities around the world.

Even sports teams are jumping on the bandwagon

The Philadelphia 76ers basketball team was the first to buy not one but two e-sports teams. E-sport fans are passionate, and with the average user spending 90 minutes a day on it, it's one of the reasons why traditional sports viewing is down. Newzoo reports that 22% of males in the US aged between 21-35 watch e-sports ahead of hockey and just ahead of baseball.

Unfortunately, our geographical isolation means it will be hard for Australia to do well. Our distance between the US and Europe means delays are a critical issue when milliseconds are the difference between victory and defeat.

The best exposure to this trend is through the major game publishers Activision Blizzard and Electronic Arts. They own the underlying games and will benefit from future broadcasting, licensing and advertising. One way to measure the growth and potential is through prize pools. Unlike most competitions where organisers solely provide for the pool, thousands of fans contribute by buying game add-ons. A game most of us have never heard of, Defense of the Ancients, ended up with a $20 million prize pool. The organisers base prize pool was $1.6 million and the rest was co-funded by fans. The winning team received $9.1 million and even the sixth placed team made over a million dollars. At this rate, parents may begin to encourage their kids to play e-games instead of sport as its safer and offers potentially more prize money.

Source: www.xygaming.com

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