

**Roger Montgomery's Top 5 Articles from 2017**

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In celebrating Cuffelinks' first five years in publishing, I confess to a little self-congratulation for agreeing to contribute at the very beginning. Aside from the obvious success that would emerge from a unique combination of product and people running the newsletter, we have to recognise the many tremendous articles and contributors that have been instrumental in the ongoing growth and success of Cuffelinks.

Fundamentally sensible and technically useful articles again dominated 2017 but for me there were a number of standouts.

**Ashley Owen** is a professional friend for whom I maintain a dose of admiration. Any article dismantling a relationship that has been held as an axiom is valuable, and Ashley has done investors a great service by demonstrating that there's no link between economic growth rates and stock market returns. In 2017, he wrote:

*"There has been no statistical relationship between economic growth and share prices when measured across countries."*

It's disheartening to think how much paper and ink is wasted suggesting investors need to know what might happen in the economy. It's even sadder to think how much time investors waste reading it.

Still with Ashley, he produced another useful article early in 2017, after the Dow Jones surmounted 20,000, showing that index performance needs to be considered not only in log scale but also after adjusting for inflation. That stocks markets "always go up", as is claimed by many promoters, may be true but, "Long periods of poor performance are normal." And

*"We see that the 'real' index after inflation has only gone from 2,000 to 20,000 in 120 years – that's less than 2% real growth per year on average, which is hardly inspiring. True that doesn't include dividends, but most investors live off the dividends and rely on the capital value increasing in real terms so that dividends can also keep ahead of inflation."*

Ashley reveals indices can trade for long periods without generating positive returns:

*"the long bear market from 1906 to 1920 [15 Years] when share prices fell 67% in real terms, and 1966 to 1982 [15 years] when the prices fell 75% in real terms."*

The almost unthinking and faddish adoption of index funds as a solution to the higher fees charged by active managers should be reconsidered in light of this disclosure, especially with share prices today at stretched levels implying low future returns.

Continuing on the subject of index investing, and since I wrote a controversial article suggesting index investing is merely 'dumb investing', it would be incongruous not to call out fellow fundie **Greg Cooper's** article on the

subject entitled; "The Paradox of Passive Investing". Like many value investors, Greg might be early but he is fundamentally 'on point' when he suggests:

*"As more capital is invested with no thought behind what is being purchased, there has to be a tipping point where this irrational behaviour is no longer sustainable. When is that tipping point? We would suggest we are close to or even past the tipping point in some markets."*

And I would add, it's better to be 12 months early than 12 minutes late.

With children of my own, I understand how important creating good financial habits is. **Robin Bowerman** might have been a little disappointed, but he should know investors were universally better off for having the advice of our mothers and fathers reiterated by Vanguard's global CEO, Bill McNabb. McNabb suggested that amid expected volatility one solution is to:

*"Save more ... Saving more is an asymmetrical proposition: If you don't save enough and the markets don't assist you, there's nothing you can do. If you over-save and do well, great – you can retire a few years earlier."*

As you are reading Cuffelinks, it's reasonably safe to assume you are doing better, financially, than the vast majority of the population of Australia, a country that is itself much richer than most others. It's worth remembering two things: First, you can't take it with you, and second, you'll be forgotten in two generations. As the pop artist Macklemore wrote in a 2017 pop song:

*"Things are just things, They don't make you who you are, Can't pack up all your haul and take it with you when you're gone."*

Giving should be something we are all engaged in and **Antonia Ruffell's** column on the best way to give is an essential roadmap to formalising a framework for good deeds.

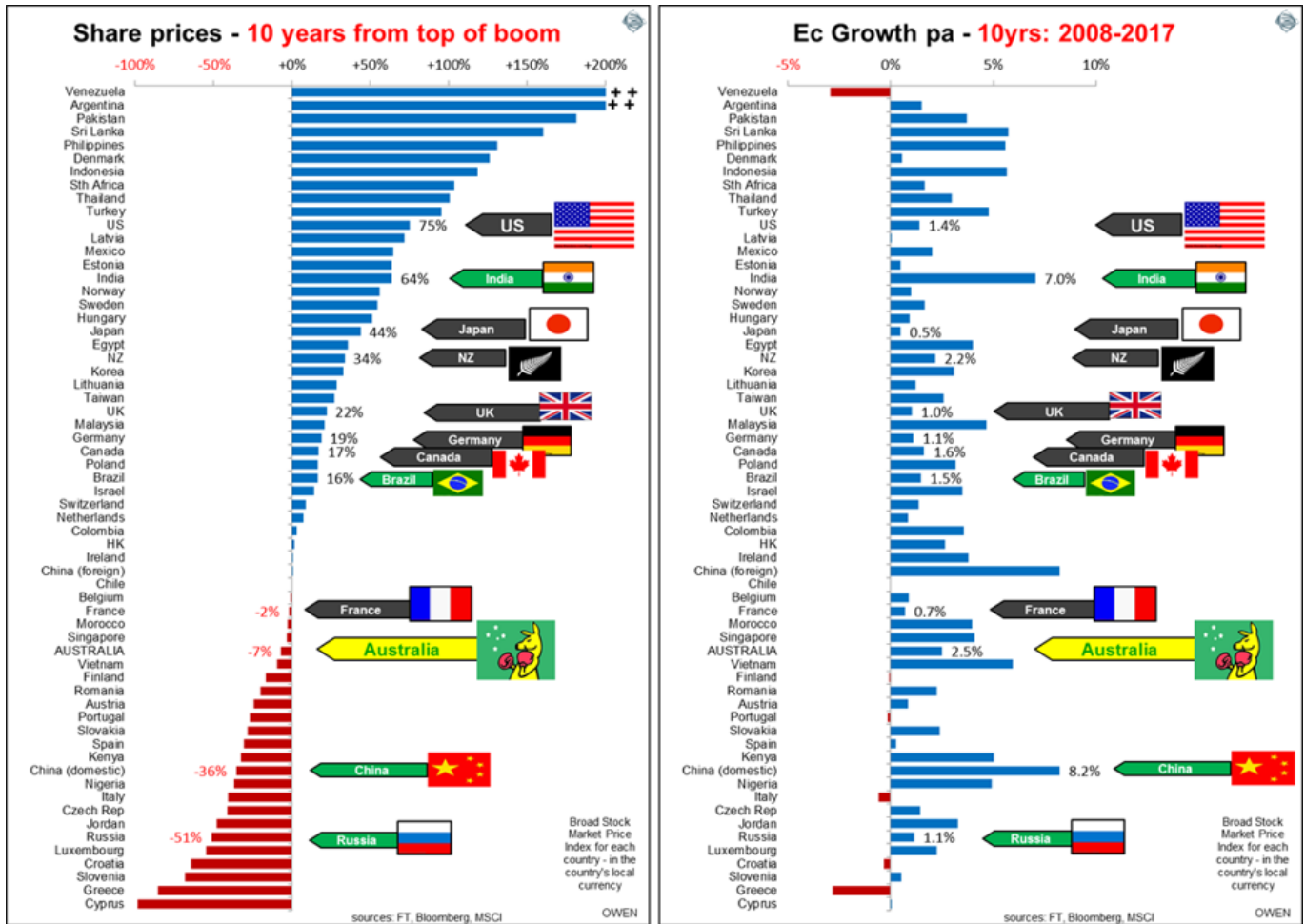
**Roger Montgomery, Guest Editor**

*Roger Montgomery is Chairman and Chief Investment Officer at [Montgomery Investment Management](#).*

## Stock market winners 10 years on

by Ashley Owen on November 30, 2017

It has been 10 years since the end of the 2003-2007 global China/credit boom, and it is time to check in on how stock markets have fared since then. The left chart ranks countries by their broad share price index growth over the past decade. Only 36 of the 62 main stock markets are ahead of their pre-GFC highs. The right chart shows average economic growth rates per country over the same period, *in the same country order as the market performance*, to demonstrate if economic growth relates to share price growth.



Among the 'developed' markets, Denmark won the gold medal in January 2013 for being the first stock market to surpass its pre-GFC peak, and it is now 126% ahead (i.e. more than double its pre-GFC peak). The silver medal went to the US in March 2013 and bronze went to the UK in May 2013. [See previous articles, [Stock market Olympics, and the winners are](#) and [Australia can learn from gold medal winner, Denmark](#)].

As usual there has been no statistical relationship between economic growth and share prices when measured across countries. Australia has been the so-called 'miracle economy' with the strongest long-term economic growth rate in the 'developed' world, and it did not even suffer an economic recession in the GFC, thanks to a deficit spending spree our grandchildren will be paying off. Yet the local stock market index (in price terms, not accumulation including dividends) is still behind its November 2007 high.

In contrast, the US, UK, Western Europe, Canada and even New Zealand suffered far lower economic growth rates in the GFC and over the past 10 years, but they have generated much stronger share prices than Australia. Denmark, the stand-out gold medallist stock market in the developed world, has had virtually no economic growth over the past 10 years. At the other end of the scale, China had the fastest economic growth rate over the past decade (and the largest aggregate growth in human history) but has had one of the worst stock markets.

Another common feature is that countries with the strongest stock markets often suffer political, economic or social turmoil and this was the case again – e.g. Argentina, Venezuela, Pakistan, Philippines, Turkey and Mexico.

There are many reasons for differences in share prices in different countries of course, but this quick snapshot is a useful reminder of the folly of focusing on economic growth as a pointer to share prices.

*Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown](#) and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is general information that does not consider the circumstances of any individual.*

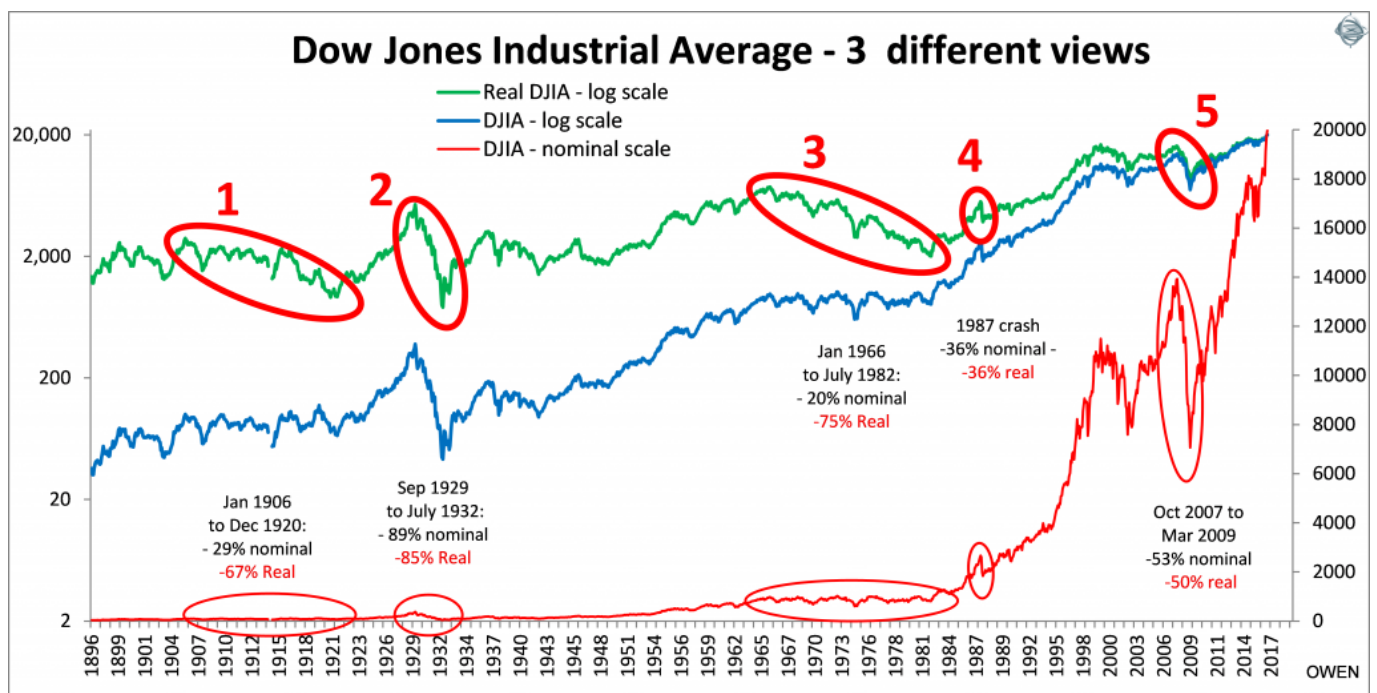
## The Dow hitting 20,000 and what it hides

by Ashley Owen on February 9, 2017

One event that grabbed headlines around the world in late January 2017 was the Dow Jones Industrial Average finally hitting 20,000 for the first time. The 'Dow' is the world's oldest and most widely-followed stock market index but it is also deeply flawed. It only tracks 30 stocks and they are not the largest stocks in the US by any means. The weighting of stocks is almost arbitrary and is based on the nominal share price of each stock and not on their relative revenues, profits, market values or importance. Despite the flaws, it is symbolic and it provides a reasonable proxy for US stocks in general. All other indexes of the US stock market have hit all-time highs recently, so the US market is hot.

### Why the Dow is misleading

A nominal index like the Dow hides many sins. The red line on the chart below was widely published last week. It shows the Dow virtually flat for 80 years and then the red line surges in the 1990s 'dot-com' boom, then again in the 2003-07 credit boom, crash in the 2008-09 sub-prime crisis, and finally make the rapid, steep ascent to the summit since 2009.



This traditional view is grossly misleading as it makes the recent cycles appear much more dramatic than earlier cycles due to the nominal scale used in traditional charts (right scale).

We need to add two more lines to see what is really going on. The first is the blue line which is the same nominal index but on a more sensible scale, a 'log' scale (or ratio scale) on the left side. This type of scale shows the cycles in the same light. For example, a doubling or halving of the index appears as the same size change regardless of the level of the index at the time.

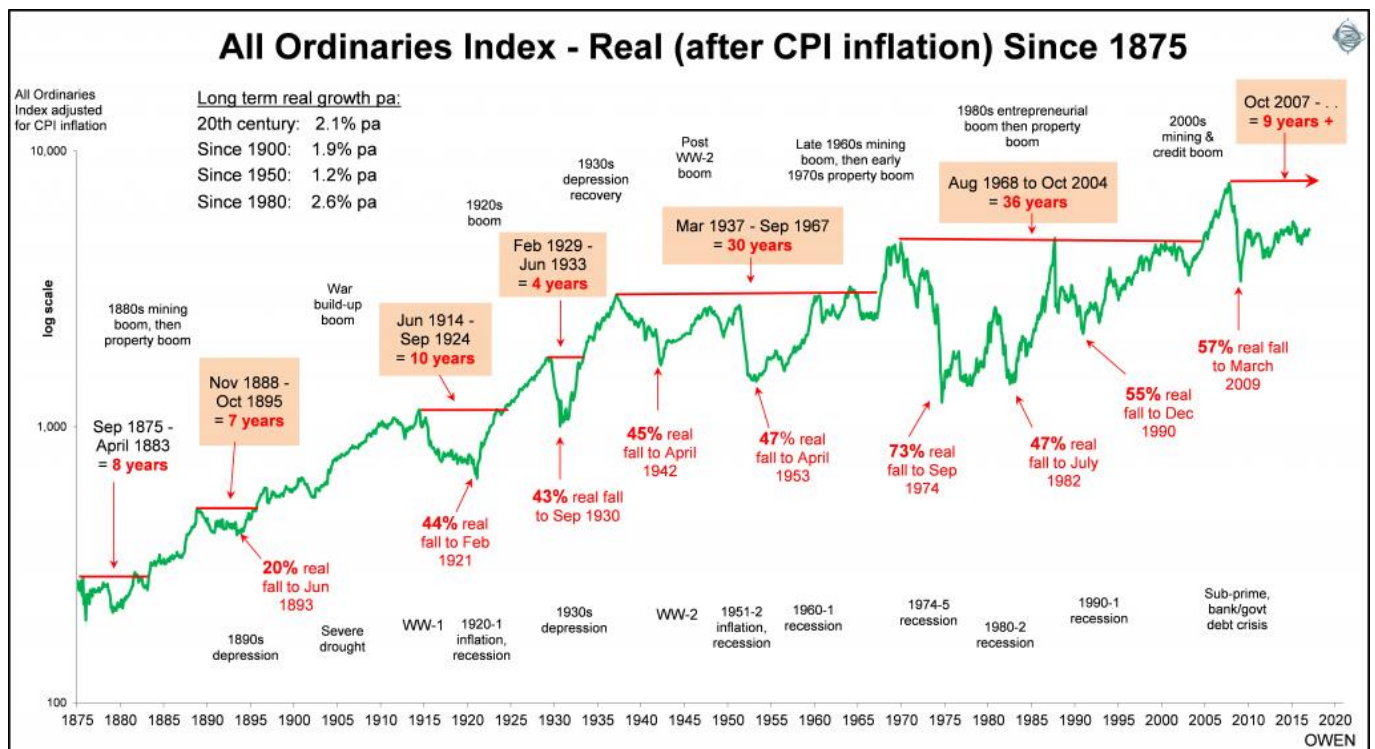
The blue line shows that the 1929-32 crash ('2' on the chart) was much more serious than the 2008-09 sub-prime crash. The index fell -89% in 1929-32, much worse than the -53% fall in 2008-09, but it is almost invisible on the traditional nominal scale chart (red line in lower left).

We also need to add a third line to adjust for inflation (green line, which also uses the left log scale). What matters to investors is the real spending power of their wealth after inflation, and this picture not nearly as rosy. We see that the 'real' index after inflation has only gone from 2,000 to 20,000 in 120 years – that's less than 2% real growth per year on average, which is hardly inspiring. True that doesn't include dividends, but most investors live off the dividends and rely on the capital value increasing in real terms so that dividends can also keep ahead of inflation.

This inflation-adjusted picture also reveals two more bear markets: '1' was the long bear market from 1906 to 1920 when share prices fell 67% in real terms, and '3' was 1966 to 1982 when the prices fell 75% in real terms. Both of these bear markets lasted an agonising 15 years, much longer than the other crashes, and much worse after inflation than the sub-prime crash, the dot-com crash, and the 1987 crash. Inflation cripples returns and lifestyles for many years at a time.

### Australian shares are a long way off their highs

Here is the same chart for Australian shares, using the All Ordinaries index and its predecessors, adjusted for Australian inflation. Using only the real (after inflation) line shows the cycles more clearly. The long picture is similar to the US, with the price index growing by just 2% per year in real (after inflation) terms.



The sub-prime crash in 2008-09 was not unusual in the scheme of things. Contrary to the media hype at the time, it wasn't a 'once in a century' event or even 'once in a lifetime' event, we have had several declines of similar or worse magnitude, one every decade or so.

Our 'big one' was the crash from 1968-74 because we had a much bigger speculative mining bubble in the late 1960s and then a huge debt-fuelled property construction boom in the early 1970s. The All Ordinaries index took 36 years to recover its real value. That's a long time to wait before seeing any real growth!

### **Inflation adjustment changes the story**

The All Ordinaries index at 5,675 (at time of writing) is just 5% higher (after inflation) than it was at the top of the mining boom on 6 January 1970. Most people who were lured into the speculative mining stocks of the day lost the lot. But what about those who avoided the speculative stocks and thought they were staying safe by buying big blue chip stocks? The so-called blue chips are barely breaking even (after inflation) even today after nearly 50 years!

The big stocks that dominated the index back then are the same companies today. Bank of NSW (now Westpac) is just ahead of its 1968 peak price, but ANZ and NAB are still behind. BHP and Woodside are just above water but CRA (now Rio) and Santos are still well behind. CSR, QBE and Lend Lease are all below their 1960s peaks.

Sure they have paid dividends along the way, but unless we want to keep working all of our lives, the aim is to live off the dividends and see the share price (and dividends) grow ahead of inflation. Timing is everything. If we follow the crowd and the media hype and buy at the top of a boom we could be waiting many decades to get back to square one before we can see any real growth.

The main lesson from the Australian and US charts is that big crashes occur frequently and they can take decades to recover in real terms after inflation. It has now been nine years since the top of the last boom, and prices are still a long way from square one. The aim is to avoid panic buying in boom time frenzies, and avoid panic selling at the bottom when prospects look darkest.

*Ashley Owen is Chief Investment Officer at independent advisory firm [Stanford Brown](#) and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is general information that does not consider the circumstances of any individual.*

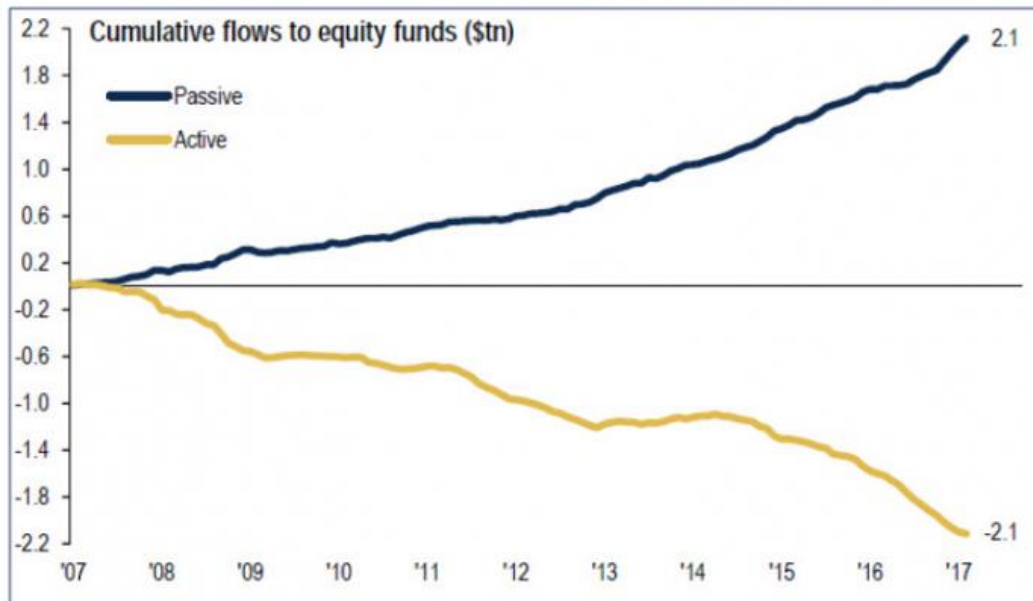
### **The paradox of passive investing**

by Greg Cooper on September 21, 2017

The rise of passive investing over the last decade has been remarkable, and the 'active versus passive' investing debate has intensified. The debate tends to focus on how much of the market is passively managed and less so on the capital flows i.e. who is buying the stock of companies and why? When stocks are being purchased without any thought to the underlying fundamentals of the company, this could create a risk to how markets operate.

Since 2007, cumulative flows into passive equity vehicles (which ignores segregated institutional accounts) have been US\$2.1 trillion, offset by similar outflows from active vehicles. Passive exposure of the total market is estimated at circa 40% globally, and predicted to rise to as much as 60% over the next five years (*Deutsche Bank, 25 May 2017*). These numbers would be higher if we accounted for 'quasi' passive flows from non-market cap based index type strategies (including 'factor' portfolios).

## Passive vs active equity flows since 2007



Source: Bank of America Merrill Lynch Global Investment Strategy, EPFR Global

There is clearly a benefit of low management costs that accrues to those using passive (or semi-passive) strategies. However, at what point are the benefits of low management costs outweighed by the causative effects of very large flows of capital being allocated with no reference to economic return. Is there a 'paradox of passive' so that investors have low management costs but in aggregate lower returns or higher risks? As more capital is invested with no thought behind what is being purchased, there has to be a tipping point where this irrational behaviour is no longer sustainable. When is that tipping point? We would suggest we are close to or even past the tipping point in some markets.

While the case for passive investing rests largely on the low cost (the SPDR S&P500 ETF, the largest in the world, has an expense ratio of just nine basis points, while the Vanguard total US market ETF is four basis points), investors in these strategies would do well to remember a number of points.

### Value does not equal price

Passive (and semi-passive) approaches ignore value and price (and governance, capital management, etc) as they invest on one criteria alone, which is the methodology for the construction of the index, often market capitalisation, or close to it. This creates a somewhat perverse outcome as the larger a company becomes, the greater the proportion of new money it receives. The indices on which passive investments are made, or indeed any rules-based approach, are prone to distortion.

Passive investing does not create the distortion in itself, if the index is an accurate reflection of market efficiency in capital allocation. However, if there is a distortion already or there are sufficient flows into a subsector of that index (e.g. a style or sector bias) then passive flows will amplify that distortion.

This process of correcting distortions is generally held in check by other non-passive (or active) investors, only to the extent those non-passive investors are influencing the price. That is not the case today with non-passive investors being large net sellers and passive investors being large net buyers. The distortions are complicated by non-market-cap based index investors biasing certain stocks.

Consider for example Amazon (AMZN), the market's consumer discretionary darling of the moment and the third largest stock in the S&P500 at 1.9%. The stock has risen 40% this year (versus S&P's 17.7%). It has a market cap of US\$475 billion, up from US\$114 billion at the end of 2012 despite poor fundamentals, a P/E ratio of over 200 times and never paying a dividend. However, it sits in at least 176 ETFs and is a top 15 holding in 117 of those.

The net result of this is that while the stock has a 1.9% market cap weight, the 'size based weight' of all the ETFs in which Amazon is listed is 2.7%. For every \$1 of flow into these ETFs, Amazon receives 150% of its market cap based weight of flow. And based on filings in the US over the last 12 months, the top three passive managers have been buyers while the top five active managers have been sellers.

The risk is that if passive flows continue at their current rate, Amazon gets even more expensive, active managers underperform, passive flows get a further boost and we have a (not very) virtuous cycle.

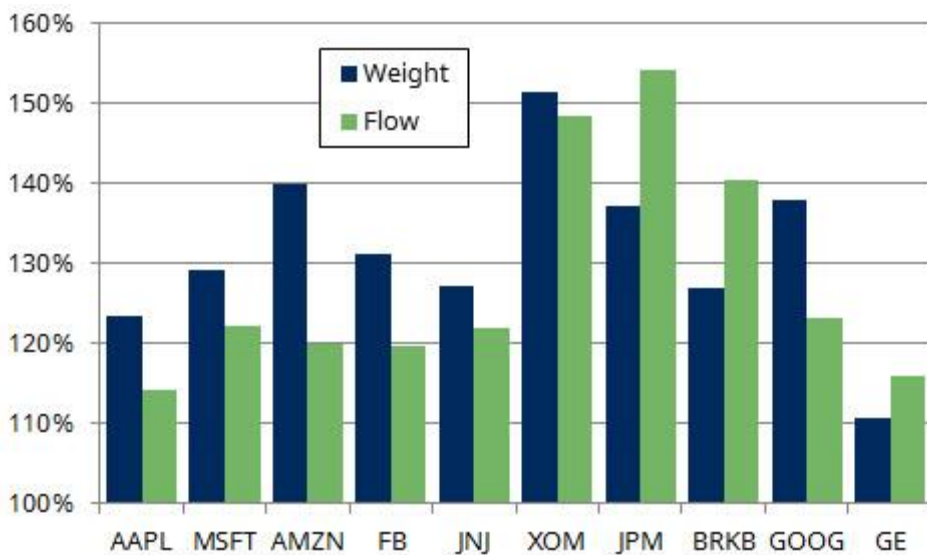
**It is flow that counts**

Passive exposures are still low, despite what is conceivable, but it is flows that cause prices to move, not 'stock', and these are massive. For the share registers of the top 15 stocks in the US, the dollar-weighted trading volume by grouping has been similar to the Amazon analysis with 'owners' and active managers net sellers, and passive managers, net buyers.

One method of analysing the distortions created by passive and other rules-based investment methods is to examine the weight of a stock in these indices and to compare it to its market cap weight.

To do this, we weight each component of the ETF by the aggregate dollar value in that ETF and compare the addition of these to the market cap weight. If the dollar-weighted value of the ETF holdings is greater than the market-cap weight then these passive strategies are collectively contributing to an overweighting in these stocks. We can examine this in terms of current invested dollars to gauge the impact of historical flows and in terms of recent flows. This is shown in the next chart.

**Percentage of ETF weight/flow received relative to market cap weight/flow in 12 months to 6 June 2017**



Source: Schroders, Bloomberg, ETF Database

Every stock in the top 10 of the S&P 500 has received a significantly greater proportion of passive flow than its market share in the S&P500 would suggest. Their aggregate weights in all the ETFs far exceeds each stock's market-cap weight in the broad market index. For example, the average dollar-weighted value of Amazon in all ETFs adds up to 140% of its market-cap weight, implying that the historical flows into these ETFs has been at a rate 40% greater than its market cap would justify. Similarly, the dollar-weighted value of the flows into Amazon has been 20% greater than its market cap would justify.

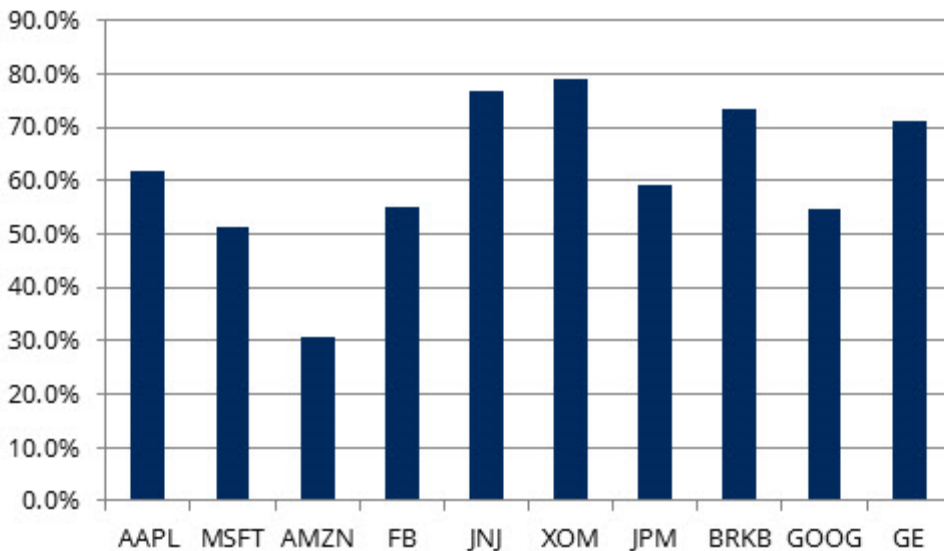
**Total portfolios can't be passive**

Virtually no investors have a total portfolio that is truly passive. While Warren Buffet's estate might be largely passive in that inflows and outflows are dwarfed by the size of the corpus, the rest of us do not really have that

luxury. Cash flows in and out mean that almost all investors have an active approach to their overall investment strategy. A low-cost strategy makes sense but investors should have regard to the way these pieces fit together, with some understanding and management of the components.

As the proportion of passive investment grows, the rigour applied in terms of governance and other issues is reduced. How often do passive, or other rules-based strategies, vote against management? It's an issue when passive investors are the largest holdings of these major companies.

### Percentage of the top 10 shareholders that are passive (as at 31<sup>st</sup> March 2017)



Source: Schroders, Bloomberg

### Conclusion

While we understand and generally concur with the desire to implement portfolios cheaply, investors should be cognisant of what they are buying. It is our view that the flows into passive and quasi-passive vehicles are having a distortive effect on markets at the moment and this is always prone to sudden reversals. Just as investors have jumped on the cheap bandwagon, the paradox of passive investing is that it could turn out to be an expensive mistake.

*Greg Cooper is CEO of [Schroders Australia](#) and Global Head of Institutional. Opinions and projections in this article constitute the judgement of the author as of the date of writing. They do not necessarily reflect the opinions of any member of the Schroders Group and are subject to change without notice.*

### Preparing for the ups-and-downs of 2017

by Robin Bowerman on February 16, 2017

After the rollercoaster of investment emotions that was 2016, investors have been cautiously embracing a more upbeat feeling across markets so far this year.

Perhaps it is wishful thinking, but it seems many pundits and punters alike are growing comfortable with the fact that, although the world looks a lot different to what it did a year ago, it's not all doom and gloom where investing is concerned.

Although a market rally can certainly buoy hopes for a more stable year, we should remember that last year was certainly no slouch for returns, despite medium-to-long-term forecasting pointing to market returns lower than historical averages, underpinned by slowing global economic growth.

In fact, the broad Australian sharemarket returned more than 11% last year, despite early concerns that China's slowing economic growth and softer commodities prices would hurt the local economy.

### **Resilience is conditional**

With that example in mind, it can be comforting to think that our investments might be more resilient than expected. Diversification and discipline are essential to 'future proofing' a portfolio, allowing it to weather oscillating markets by being more resilient in the face of volatility.

Diversification allows investors to spread risk and avoid a catastrophic hit to their portfolio if they are over-exposed to a single company, sector or market that tumbles. Having exposure to multiple countries, industry sectors, varying market caps and asset classes (e.g. equities and fixed income) gives portfolios a better chance at carrying on should only a portion of its holdings go through a cycle of underperformance, or loss.

While diversification acts as a shock absorber for a portfolio, discipline is the key to letting diversification do its job of managing risk. By avoiding the temptation to follow market trends, either by selling an asset when its value falls, or buying an asset that's on an upward march, investors can remove perhaps the riskiest factor that can hammer potential returns: human behaviour.

Human behaviour, particularly fear and temptation, are what can drive investors to make ill-considered decisions in times of market fluctuation. We saw this last year when many investors sought to flee UK equities ahead of the Brexit vote, only to miss out on a fairly quick recovery in that market. An investor with a broad exposure to the British sharemarket would have likely been better off gritting their teeth through the tumult and seeing it through to the other side.

Vanguard's global CEO, Bill McNabb, [discussed this recently](#) with *The Evidence-Based Investor*, outlining how Vanguard approaches market flashpoints like Brexit in terms of understanding risk, rather than trying to work out trading strategies to minimise damage or maximise opportunity.

In a [recent letter to investors](#), the full version of which is featured below, McNabb also outlined the need for investors to be prepared for future volatility, saying that surprises should be expected in 2017. Although Vanguard isn't in the habit of offering 'hot tips' for investors, McNabb outlined in his letter these four pieces of advice to help investors navigate uncertainty and set themselves up for investment success.

*Valley Forge, Pennsylvania  
9 January 2017*

*As we begin 2017, I'm struck by the questions we've been receiving from our investors. Never before — not even during the Global Financial Crisis — have investors come to us with such specific concerns about the movements of the markets and governments around the world.*

*We're living in unprecedented times, so we certainly can't predict what this year will bring. And if you know Vanguard, you should know not to expect 'hot tips' or 'sure bets' from us either. But I do have four suggestions that I believe can help investors reach their goals.*

**1. Prepare for uncertainty.** *Several political and economic events caught observers by surprise in 2016, including the results of the Brexit vote in the United Kingdom, the presidential election in the United States and the federal election in Australia. Markets respond to surprises with volatility, and we expect more surprises in 2017. With [a new US administration](#) comes the potential for changes to policies that affect investors. Some may be beneficial; some may trigger market volatility. The best approach in any environment is to maintain a long-term perspective and a balanced and diversified portfolio.*

**2. Save more.** *In addition to potential near-term volatility, we expect the equity and bond markets to produce lower returns in the next ten years than they have over the past several decades. This will place the burden on*

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investors to save more. Saving more is an asymmetrical proposition: If you don't save enough and the markets don't assist you, there's nothing you can do. If you over-save and do well, great – you can retire a few years earlier.

**3. Safeguard your assets.** As the threat of cybercrime continues to grow, we work hard to protect our clients' assets and data. But investors must be aware of the risks and take precautions too.

**4. Stay well-informed.** Great investors understand how all the pieces fit together. Become familiar with all the components of your portfolio and know the role that each one plays in your investment plan. Stay abreast of the markets and economy but don't be driven by their movements. I realise it sounds paradoxical to say, "Stay current but resist the urge to act." But that's exactly what you should do.

Here's to a prosperous 2017.

William McNabb III, Chairman and Chief Executive Officer, The Vanguard Group, Inc.

Robin Bowerman is Head of Market Strategy and Communications at [Vanguard Australia](#). This article is general information and does not consider the circumstances of any individual. Vanguard is a sponsor of Cuffelinks.

## Philanthropy is growing, but what's the best way to give?

by Antonia Ruffell on May 25, 2017

With 30 June approaching, charities are ramping up their fundraising campaigns, reminding people that they can make tax deductible donations before the end of the financial year. The challenge for donors is finding the most effective way to give.

Private and public ancillary funds are rapidly increasing in popularity, and enable an individual or family to put aside a chunk of money in a trust to support charities over the long term. It's good news for charities. The most recent ATO tax statistics (for the 2014-15 year) show total deductible giving by Australian taxpayers increased by 18% in 2014-15 to just over \$3 billion. About 75% of this increase came from the most wealthy Australians (those with total incomes over \$500,000). Those with incomes over \$1 million donated the equivalent of 3.4% of their taxable income in 2015, up from 2% the previous year. An increase in donations to ancillary funds was a significant part of the uplift.

### How ancillary funds work

Private ancillary funds (PAFs) were introduced in Australia in 2002. A PAF is a type of charitable trust that allows an individual or family to put aside a chunk of money for charitable purposes in perpetuity. The individual donates capital into it and gets an immediate tax deduction for the donation. The capital is then invested long-term, and a minimum of 5% of the value of the PAF assets must be distributed as grants to charities each year. To be eligible, a charity must have Deductible Gift Recipient Item 1 status, and there are over 20,000 charities to choose from.

By their nature, PAFs are a vehicle for the wealthy – most people donate upwards of \$500,000 to kick one off. However, there is an alternative, usually for smaller amounts.

A public ancillary fund (PuAF) has the same tax advantages as a PAF but is a communal structure. Unlike a PAF, there is no requirement to establish a new trust or trustee company, so a named sub-fund can be established immediately. It can be set up in a few days before 30 June, and there's no set-up cost to do this. For example, a sub-fund in the Australian Philanthropic Services Foundation can be established with \$50,000. A minimum of 4% of the PuAF assets must be given away each year, slightly lower than with a PAF, and the same range of charities can be supported.

A sub-fund in a PuAF can be a great way to grow your philanthropic pot. Portability is allowed which means, for example, that someone could set up a sub-fund in a public ancillary fund, grow the balance over a few years, and then transfer the funds to their own PAF later.

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## Leading to more structured giving

This proliferation of charities can make deciding where to give an overwhelming task. It takes time to think through the projects worth supporting and the desired impact, especially if you're involving others, such as family members, in the decision. In my role, I often hear people say that before they set up a sub-fund or PAF, they gave reactively, responding to fundraising appeals, phone calls and events. Over time, as they gave away more, they felt they were being increasingly ineffective.

Establishing a philanthropic structure provides a solution. Rather than having to make a quick decision, a PAF or sub-fund allows an immediate tax deduction while the choice of charity can be made at a later stage when there is more time for research. The founder can spend time articulating what they are passionate about and the types of causes they want to support. Some people like to fund those areas that are overlooked by government, or to support slightly riskier, pilot projects that seek to find new ways to respond to some of society's most entrenched and difficult issues. Others like to support those long-standing charities that they know and trust. There is no right or wrong answer, but taking the time to consider where you want to donate leads to greater satisfaction that your charitable dollar is making a difference.

A philanthropic structure can also be an important investment in the future. Multi-year funding commitments are easier as the PAF or sub-fund founder knows the money is already set aside, and the charity has the benefit of knowing they have a revenue stream for the next few years. Involving younger family members can help to increase childrens' social awareness, inspire future generations, and ensure the founder's philanthropic legacy continues.

In the next 10 to 20 years, baby boomers will be retiring, selling family businesses or passing away, setting in motion an enormous transfer of wealth to the next generation. People often think of donating after they've had a particularly good year, retirement payment or inheritance. Ancillary funds are likely to continue to grow as people ponder what to do with philanthropic plans and charities will reap the benefits over the long-term.

*Antonia Ruffell is CEO of Australian Philanthropic Services (APS), a not-for-profit organisation that sets up and administers private ancillary funds, offers a public ancillary fund, and provides grant-making advice. Chris Cuffe is the pro bono Founder and Chairman of APS.*

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