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Trump's fiscal stimulus threatens stocks

Hamish Douglass

We are at an inflexion point when it comes to the outlook for US monetary policy because three macroeconomic realities are colliding that could lead to a sudden tightening by the Federal Reserve over the next 12 to 18 months. The risks for investors are skewed to the downside.

The **first** macro reality is that asset prices around the world are elevated. Asset prices are not at 'bubble' levels but they are expensive. Global stocks and investment-grade and non-investment-grade bonds are at, or near, their most expensive in 20 years. This view shouldn't take anyone by surprise.

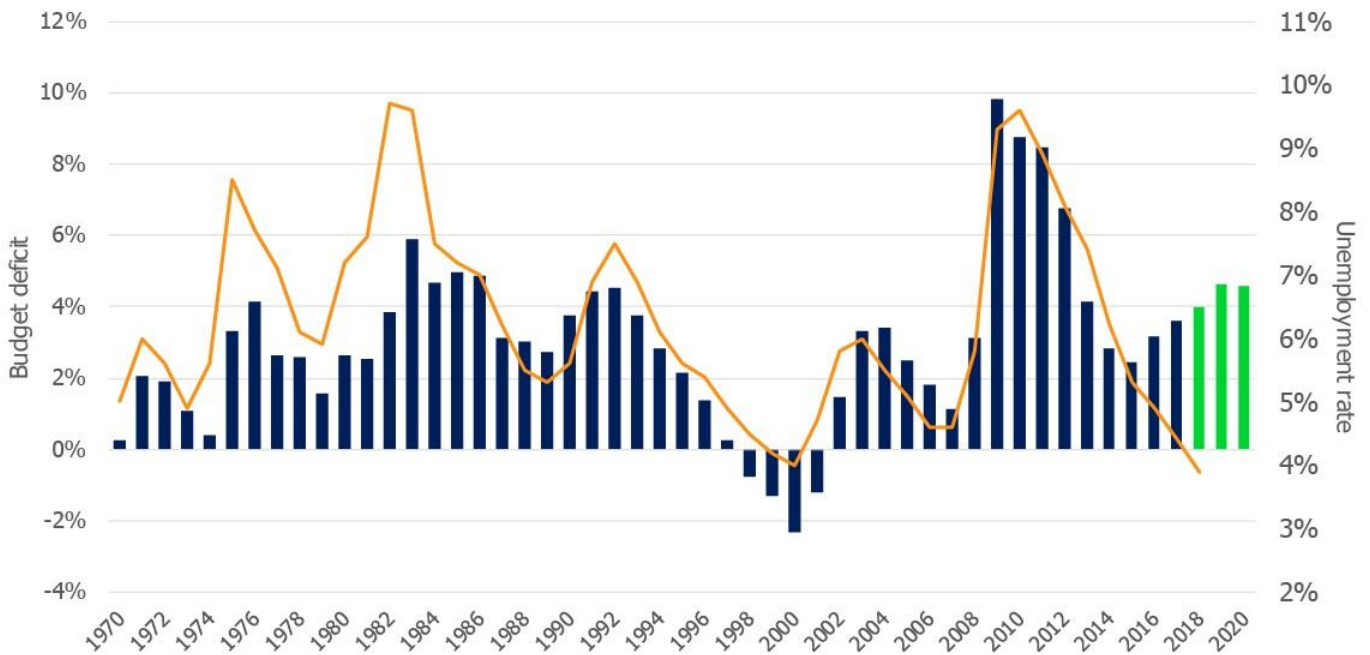
The **second** is that the world's major central banks are reducing the support they have provided to markets since 2008. Even if we go back just 12 months, the Bank of Japan and the European Central Bank were conducting asset purchases of US\$1.5 trillion a year, which helped keep down long-term interest rates. Nowadays the European Central Bank is winding back its quantitative easing while the Federal Reserve is implementing quantitative tightening. From October 2018, the Federal Reserve will be shrinking its balance sheet by US\$50 billion a month or US\$600 billion a year. In January 2018, the European Central Bank halved its monthly asset purchases from 60 billion euros to 30 billion euros and it plans to stop purchases by year-end. We will be in a world of no net central bank support for markets. That is a different environment compared with what markets have enjoyed over the past decade. We would expect bond yields to drift higher still.

The **third** important fact is that the US is injecting fiscal stimulus into a growing economy at full employment. The US budget deficit is rising mainly because of the tax cuts initiated by President Trump that Congress approved last December. The US budget deficit is about 4% of GDP now and is expected to rise to about 4.25% of GDP in 2019 and 2020.

Fiscal stimulus despite full employment

The chart below shows that over the past 50 years, the US federal budget has usually gone into deficit only when the unemployment rate was climbing. For the first time since 1970, the US budget deficit is rising when unemployment is falling. The US jobless rate fell to 3.7% in September 2018, the lowest level since 1969. Other broader measures of US unemployment are dropping too, even if they are not approaching 49-year lows. All the evidence points to a humming US economy, yet policymakers are injecting fiscal stimulus.

**US fiscal stimulus arrives when the economy is reaching full employment
(US budget deficit % of GDP (LHS) and US unemployment rate % (RHS) since 1970)**



Source: Congressional Budget Office, Bureau of Labor Statistics

What does the intersection of these three realities mean for monetary policy?

Two main scenarios could play out

We call the **first** the Goldilocks scenario. This outcome describes the largely benign situation where no material increase in US inflation occurs over the next 12 months or so. It assumes that average weekly wages growth goes no higher than that annual pace of just below 3% it's recording today.

But since 1950, there have been only four periods when the US unemployment rate has fallen below 4% and the first three led to higher inflation. We have never seen a multi-year period where the jobless rate remained below 4% and inflation stayed at 2% or below. Yet this is what the Federal Reserve is forecasting for the US economy over the next two years. Under this Goldilocks scenario, the Federal Reserve has indicated that it will increase the US cash rate to 3-3.25% by the end of 2019. If inflation stays low and the Federal Reserve were to implement such a gradual increase in the US cash rate, we would expect the yield on 10-year US government bonds to rise from about 3.2% now to about 4%.

If these events were to happen, it's straightforward to predict what might happen to global markets. Moderately higher interest rates would be a minor headwind to economies and stocks. The US dollar would probably rise. Investors would probably want to stay away from emerging markets and yield-sensitive stocks. But we don't see any great disruption for markets. Long-term forces are putting downward pressure on inflation and wages and the Goldilocks scenarios could well play out, something that market prices tell us that investors are expecting to happen. But this is a bet against history.

We don't have a name for the **second** scenario. It's when inflation emerges after average weekly wages growth accelerates beyond a 3% annual pace. If Trump's tax cuts fan the economy and the labour market tightens we would expect meaningful wages growth to occur in the US. Evidence is already emerging that companies are struggling to contain labour costs so this outcome is possible.

What would this mean for US monetary policy? It would mean that the Federal Reserve is wrong to flag just four more quarter-point increases in the US cash rate over the coming 12 months or so. If inflation were to accelerate beyond the Federal Reserve's target of 2%, we would expect the central bank to act forcibly to counteract inflationary pressures – Chairman Jerome Powell has said it would. Under the non-Goldilocks scenario, the US cash rate could climb to between 4% and 4.25% and the yield on 10-year Treasuries could rise above 5%. This could happen quickly too. By the second month of reports showing US average weekly earnings growing at an annual rate above 3%, a major reassessment of the tightening of US monetary policy could take place. If this were to happen, a 20% to 30% drop in global stocks is foreseeable.

The probabilities of these market impacts

We put the odds of scenario two taking place at about 50%, the same probability that we put on the Goldilocks scenario. In other words, we don't know which of these two scenarios is more likely but we are not talking about a 5% probability of market ructions.

Due to these heightened risks, we have maintained a defensive stance in the Global Equity portfolio over this year. We are holding about 18% cash, which should enhance the defensive characteristics of our portfolio and act as a partial hedge against a potential market correction and higher interest rates in general.

Hamish Douglass is Co-Founder, Chairman and Chief Investment Officer of [Magellan Asset Management](#), a sponsor of Cuffelinks. This article is for general information only and does not consider the circumstances of any investor.

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The 4Ps of roboadvice: persist, pivot, partner or pack up

Graham Hand

Mainstream media loves to publish articles about how roboadvice is the future of financial advice, especially in the face of the horror stories exposed by the Financial Services Royal Commission. The stories unveil the exciting new wave, the independent disruption and the better online solution that will revolutionise advice. The effusive articles often feature photographs of robots, proving an enthusiastic graphic designer has missed the point. A decade after the start of roboadvice, we are breathlessly told its time has come.

Roboadvice is a broad field, covering many types of automated investment services. It is supposed to be the antithesis of the traditional financial advice model, which is replete with high fees, poor communication and conflicts of interest. The doubtful qualifications of some advisers adds to an image of an industry ripe for the picking.

In reality, roboadvice is struggling to make a meaningful impact, and market penetration is largely confined to millennials or younger who do not yet hold significant wealth. In any case, most of them would rather own a home than an ETF. Many of the more established players are introducing human advisers to complement the online offer.

At a time when one relatively unknown fund manager can raise half a billion dollars in a month of marketing a Listed Investment Company, it's doubtful whether the entire Australian roboadvice industry has raised this much in five years.

US robo growth rates heading lower

The great robo success stories are, apparently, in the United States, but leading industry watcher and frequent visitor to Australia, Michael Kitces, wrote [this summary](#) in 2016 under the heading, "Robo-Advisor Growth Rates Are Plummeting."

(Kitces is not referring to long-established businesses such as Charles Schwab or Vanguard which have added roboadvice to their existing capabilities, and it's uncertain how much is a transfer of money within same business).

In May 2018, Kitces gave [another reminder](#) of what has been achieved after a decade of roboadvice marketing and strong brand exposure. While the numbers look fine, they should be read in the context of BlackRock managing over US\$6 trillion and Vanguard over US\$5 trillion (that's trillion, or one thousand billion). The great disruptors like Facebook and Google drove a network effect where growth rates rose exponentially for many years.

*"The early fear was that robo-advisors were going to replace advisors, at least that's what the robo-advisors came to market with, saying, "We're here to replace advisors and do it cheaper." You know, with frankly very limited growth of robo-advisors, I don't mean to knock the assets that they built with, you know, companies like Wealthfront and Betterment at \$10 billion to \$15 billion, but when the total U.S. investable market space is upwards of \$35 trillion to \$40 trillion, we're talking about **something on the order of 0.06% market share***

of investable assets. Which means I think we're past the question of whether robo-advisors are going to replace human advisors in the mainstream. They're not." (My emphasis)

I asked Kitces for an updated view for this article, and he replied:

"Through Q2 (latest quarter I can get reasonable data), Betterment was adding about \$300M/month, and Wealthfront was at about \$170M/month. This is a bit of a lift in total monthly flows than it was in 2016, but on a much larger base. Back then, Betterment adding \$150M/month on a roughly \$3.5B base, or a monthly growth pace of about 4.3%. Now it's \$300M/month on a \$13.5B base, which is only a 2.2% monthly growth rate. Wealthfront is similar; back then, it was as low as \$60M/month on a \$3B base (2% monthly growth rate), and now it's \$170M on an \$11.2B base (growth rate of about 1.5%). So in essence, their growth rates keep grinding lower, although the companies are still about 3X the size they were back in 2016, so the absolute flows have lifted (although both were even higher in 2017, and have actually seen another slowdown in 2018).

In terms of companies that have closed or pivoted, off the top of my head ...

- *Hedgeable shut down*
- *WorthWM shut down*
- *SheCapital shut down*
- *Jemstep was sold to Invesco*
- *FutureAdvisor was sold to Blackrock*
- *Upside Advisor was sold to Envestnet*
- *Vanare/Nest Egg pivoted to advisors (now AdvisorEngine and funded by WisdomTree)*
- *SigFig is partnering with wirehouses*
- *Betterment launched its own advisor channel."*

Hedgeable was not a recent entrant. It started in 2010, and when it closed, it held US\$80 million for 1,700 clients at a 0.75% fee. This is a scale business. LearnVest also closed in June 2018 but has since reopened as a provider of financial education material.

In the UK, UBS announced it would close its SmartWealth roboadvice business, launched in 2016 and intended to be rolled out in many countries. The potential of the business was "limited".

Kitces' list illustrates the other great hope of many roboadvisor startups: not that they will independently revolutionise financial advice, but that a large competitor will buy the business and become a strong partner with an existing client base.

Many Australian players, not many assets

This article is not a review of the entire Australian roboadvice industry. Although they do not all call themselves roboadvisors, occupying similar spaces are Stockspot, Clover, Six Park, Spaceship, Zuper, MapMyPlan, SuperEd, Decimal, QuietGrowth, Raiz (formerly Acorns), InvestSMART, Ignition Wealth, Balance Impact, Plenty, Grow Super, Superstash ... to name many. It's a highly competitive space raising millions in startup capital.

The vast majority of these businesses do not reveal the assets they manage. Most are startups burning cash each month, relying on optimistic investors for ongoing support. A few will be rewarded but most must pivot to something else, pack up or find a buyer rather than remain independent. Their valuations are not determined by profit, as there isn't any. Rather, they must demonstrate blue sky and an exponential growth path. Just don't mention the terrifying CAC – the Cost of Acquiring a Customer.

In its Annual Review of the superannuation industry in 2016, SuperRatings awarded QSuper's Money Map the prize for the Best New Product/Innovation. It was an "online financial advice tool" with a single online dashboard allowing members to track their finances. From 1 September 2018, the product was closed.

BigFuture was a runner-up in the 2015 Afinition Showcase for the Best Robo-Advice service in Australia, but it abandoned its direct offer in May 2018 (see following interview).

In February 2017, Westpac wound up its BT Go-invest roboadvice product launched in 2015 with four model portfolios, after finding it unviable, although BT is pursuing consumers directly with Panorama.

In 2017, Macquarie Bank shuttered its OwnersAdvisory service, following the tragic death of John O'Connell, the executive who was driving the roboadvice initiative.

Decimal is listed on the ASX and has built technology to add digital advice to financial products. It has been adopted by some major super funds. It recently announced:

"At the end of 2017 the Board formed a view that the existing 'direct to customer' sales approach was leading to a prohibitively high cost of customer acquisition and moved to develop indirect channels and routes to market, for smaller deals and customer segments, while maintaining direct sales for larger opportunities.

The outcome of these discussions, both comprehensive and broad, is the recent announcement of the Binding Proposal for Sargon Capital Pty Ltd to acquire all of the shares of Decimal for a consideration of 1.41 cents per share."

Here is the share price movement of Decimal (ASX:DSX) since 2014:



Source: Yahoo Finance

For a listed company operating in what is supposed to be a new frontier, profits are elusive. Its shares have traded below 1 cent having been 30 cents less than five years ago.

Australian pioneer in online investing, Stockspot, has enjoyed a high media profile since its launch in 2014, supported by \$5 million in funding from backers including ETF Securities' Graham Tuckwell. Stockspot does not release figures on its funds under management, making it impossible to monitor its progress. CEO Chris Brycki provided this comment:

"The first phase of B2C robo advice (both here and overseas) has been focused on process automation, educating consumers and simplifying the customer experience to reduce frictions and give more people the confidence to grow their wealth by investing.

We see the next stage being centered around mass personalisation. i.e. giving clients a more customised experience based on factors like their experience, engagement level, and personal preferences."

The exit strategies

So we have the four Ps of choice:

- Persist in making the business work before the source of capital dries up.
- Partner with an existing business with a large client base.
- Pivot into a related business where competitive advantages and skills can be commercialised.
- Pack up (or if you prefer, pull the plug), because the business cannot find a market or a partner.

Fortunately, for the time being, the venture capital market does not seem overly worried about the fifth P: profit.

But it's better not to make enemies along the way. After I wrote a [review of Spaceship's](#) superannuation offer (by the way, they have a significantly improved non-super fund), I received an email from someone working in wealth management. She had been for a job interview at one of the new roboadvice startups. After discussions on positioning the business as fighting the injustices of the superannuation system and its incumbents, she asked about the exit strategy for the business. How would the value of the equity offered in the remuneration

package be realised? Without hesitation, the recently-minted CEO said he will sell to a major bank. So much for hating the pernicious ways of the old guard.

As she wrote in her email about the CEO, "He's developed a bit of an ego about not being part of 'your industry' which I had a fight with him about ... I told him that the minute he picked this industry, he was also a part of it."

Interview with early roboadvisor, BigFuture

In [Part 2 of this look at roboadvice](#), we interview the CEO of BigFuture, Donald Hellyer, on why his business pivoted away from its 'direct to consumer' (B2C) aspirations, and what it has become.

Graham Hand is Managing Editor of Cuffelinks. Disclosure: Graham is on the Investment Committee of ethical roboadvisor startup, Balance Impact.

Roboadvice 2: Why an early roboadvisor pivoted away

Graham Hand

In [Part 1 on roboadvice](#), we looked at the participants attempting to carve out a role, hoping that the support of startup capital lasts long enough to find a buyer, pivot to something else or show a path to profit.

In Part 2, we focus on an early mover in the consumer market.

Interview with BigFuture

BigFuture launched its 'cloud-based wealth advice service' in 2015, driven by three experienced co-founders including Donald Hellyer. It raised capital and promoted itself at trade conventions, and produced an entertaining newsletter and educational videos. It was a runner-up in the 2015 Afinition Showcase for the Best Robo-Advice service.

Three years later, it issued this advice:

"At the end of May 2018, we intend to close the BigFuture website. We are proud of what we built but regretfully we were unable to commercialise the application ...

BigFuture Pty Ltd is still around as an entity. We are working on revenue producing projects."

This is my interview with Donald Hellyer, CEO of BigFuture.

GH: What was the original vision for BigFuture and how did it change over the years?

DH: It was quite simple. Most people don't have a good handle on what they own. They often have the 'spreadsheet from hell'. And a single number on the value of their assets in the future provided by a super fund calculator is bound to be wrong. It is deterministic and life is much more complicated. Nobody really cared enough to do a better job, so three of us who had been working in financial services all our lives thought there was an opportunity.

We wanted to link up a person's entire financial position and give it real time to a financial planner, and it's something with even greater need now given the Royal Commission revelations on fee-for-no-service. How do you create better interaction between clients and advisers?

Think of three or four possible markets for a product like ours:

- B2C (business to consumer), a system used directly by investors
- B2B (business to business) with financial planners as one market, super funds in another, and possibly fund managers

The main lesson we learned along the way in B2C is 'verbs not nouns'. That is, we can give clients details, but we need to give them an action, something to do.

GH: Do you mean particularly in communications to them?

DH: You got to say, "Here are the results, now you can do something."

GH: When you first started, you were ambitious about B2C.

DH: Yes, we were, it seemed a logical space to be. Perhaps we were early. There's a problem that millennials don't have enough money and don't feel particularly engaged anyway. Most want to repay their student loans and save for a house. And not enough people with more money want to share their details on a cloud-based system. We did not create the required virtuous circle to keep building more functionality.

GH: What about the difficulties finding an audience, reaching out to people?

DH: It's chicken and egg. Any development must create something people want, not something that you think they want. Perhaps nobody knows what the 'market' wants. Everybody has ideas, and some of them will work among the thousands who try. I would not have thought that Acorns (now Raiz) would work, but it has, with relatively low marketing expenditure.

The age of 65 is never going to occur for a 30-year-old. Raiz has made a fundamental change in the business of super compared with institutions, allowing people to put \$1 in super when they buy something. It links spending with long-term savings.

When we started BigFuture, I joined 15 super funds to check the experience, and only two called me after I signed up. If you're a millennial, you want better communication.

GH: Tell me more about B2C problems.

DH: We tried blogs and animations and social media but we never had a breakthrough. Maybe we should have started with an app not a website. But on an app, you struggle giving enough detail on a small screen. Maybe we just didn't produce something people wanted in enough numbers. Many people loved the product, but just because I think people 'should' know about their financial affairs, doesn't mean people will. We thought people would pay say \$10 a month for the service.

GH: What was the point where you said this B2C is not worth doing?

DH: Well, we really moved in parallel, but we needed to work B2B with people who already had clients. We went to super funds who would pay us to offer the product to their clients.

GH: It seems like a strong proposition to a super fund, to offer your service to their members. You had some success, but why did it not resonate more?

DH: The game's not over, we're still working with the big funds, but we've 'pivoted' the business to make more money elsewhere. We put resources where the revenue is, into software development and coding.

Competition between the industry funds is minimal, they each have their constituent, there's no 'creative destruction'. Nobody is going out of business. The average person cannot distinguish between them, just like the top three electricity suppliers. The effort required to differentiate the products is too much. It's not whether super funds care enough about the technology – it's about how fundamental it is to their business. The largest super funds will probably supply essentially the same services in five to 10 years' time as they do now. Smaller funds will be more entrepreneurial, they will want to add more value.

GH: What is your pitch to them? They should want what you're doing for their members.

DH: We only had good conversations, but they required all the development to occur outside the super funds and be proven outside the super funds. But people like us have the least amount of capital to do the development. Someone will break through but take the example of the listed company Decimal. Latest share price 1.5 cents.

The main business development of a super fund is not with its members, it's with the employer base that uses it. It's about becoming the default member fund.

You also have administrators in an oligopoly, Link and Mercer. So if you're going to do something special in technology as a super fund, how do you get the data? Neither has open APIs.

We have a couple of super fund clients with apps we have developed for them, with enhancements specific to the needs of their clients, rather than using the entire BigFuture picture we started with.

Other pivoting developments in the charity space include our launch of 'Charity Booster', an app designed to increase a charity's donor numbers. For example, donors can give to a conservation charity each time they buy petrol, or a charity like OzHarvest each time they go to the supermarket. We can deliver the whole thing for \$30,000.

So instead of wealth aggregation tools, we pivoted into contribution planning through payments systems, plus the charity applications.

Fintech is a game of attrition. When does the business stop burning cash as it is creating something? I've got five developers cutting code, but if you're waiting for someone to make a decision, that's a major operating cost. Our expenditure goes on developing product and the cost of data. You need to find a toe hold where you can make money.

Graham Hand is Managing Editor of Cuffelinks.

Finance industry must #befair to women

Leisa Bell

'Chat 10 Looks 3' started as a [podcast](#) in which ABC journalists Annabel Crabb and Leigh Sales discuss "what they're reading, watching, cooking, listening to or irrationally excited by". Now in its 94th episode, it has a large following.

Equally impressive is the official Chat 10 Looks 3 podcast community group on Facebook. With almost 30,000 members, it has the kind of member engagement that businesses dream of. Many posts generate hundreds of intelligent responses. The overwhelmingly female membership is smart, community-minded and spirited.

A recent post read like something from the seventies. A member, JD, complained of unfair treatment by financial service providers due to her gender, and hundreds of women responded with similar complaints.

We reproduce a selection below with the original post. Although the names are stated in full on Facebook, and with 30,000 members it's hardly a closed group, we have chosen to use initials rather than full names here.

The obvious conclusion is that some members of the finance industry still have a long way to go before they are treating men and women equally.

30 October 2018

JD: Good morning chatter ladies and gents, I have a 'situation' that I feel worthy of discussion, in fact I even think it could be worthy of a campaign! Something like #metoo except maybe it could be called the #befair initiative!

Four years ago my husband, who earns equally the same amount as me, if not even a little less, and I went in to buy a house, because we had moved locations. We decided to use my bank, and open a joint account and pay into the home mortgage from that. We also opened a joint credit card and they put him down as the Primary and me as the Secondary. I said ahem, it's my account we're attaching that to, so, no thank you, I will not be a primary, I want to be 'joint' or nothing, thank you.

I was a little surprised to find that the letters were addressed to him regardless, and inside it referred to Mr and Mrs. I would have thought it would be addressed to both of us, or even me, since I have business with that bank, but no.

Then we, because we were married, decided to go to the same Accountant, with equal business and being equal clients. A few months ago, I made some inquiries about my individual superannuation, and made some changes. The Accountant rang my husband to confirm this!

Then, last week I made an appointment to see a Financial Advisor (remember I was looking into retirement planning in a previous post) and when the Financial Advisor was writing down the clients she automatically put him down as the client, and me as the 'partner'. I was the one who arranged the appointment and I asked him along. When I questioned it she said, 'I'm a little old fashioned that way' and I said well could you please change it to Client and Client please.

What's with this? Does this annoy anyone else? Does there need to be some change of systems in these traditional institutions. I'm getting very sick of being the handbag. #befair is what I think. Have you had this experience? What do you think?

A selection of comments

LP Totally! We went car shopping and traded in MY car to buy ME a new car... and the finance guy firstly says "oh, you want it in your name", agh YES! And then I submit the finance paperwork and he rings and asks for my husband's proof of income... I obviously questioned this, where he tells me it's so he can be the guarantor! My husband thought I was extreme, but I told the guy no, I'm a professional with a good income, I'll have my own loan, thank you very much!

NP Drives me up the wall!!! We are building a house at the moment and it's painful. The real estate agent we are renting from put the lease in my husband's name only and when I asked why he said that they always put it in the name of the primary breadwinner. I said that, actually, I was the highest earner. He didn't know what to say and ended up processing it in my husband's name anyway!

MS Happens way too often. Husband and I went to the bank yesterday – the bank person ONLY addressed my husband. As we worked through the reason for the visit, my comments were ignored or I was told I was not correct – that was until I pointed out he was only looking at my husband's account and not mine!!!

RS "I think we'll leave you out of it. We can do it without your stuff" – Mortgage broker.

CH 20 years ago when I applied for home insurance on the home we built but I paid for, RACV said they would put the policy in my husband's name. I insisted it be in my name (also my husband's wishes). They argued that if my husband was living in the house with me, it was their policy to have it in his name. I asked for someone more senior to clarify this. They did. I went to another insurer. Thought this antiquated attitude would have changed by now. Clearly, not! Infuriating!

RW Maddening! It happens a lot. But the worst was when we were applying for an investment loan for a new property. I do all the financial arrangements and investments and this was made clear to the guy at the bank. But he kept talking to my husband, and my husband said 'don't ask me mate, [RW] looks after all this'. And he STILL ignored me. I am an economist and ex-bank officer. So bloody frustrating!

KR When I bought my engagement ring with MY money (because I had more savings and earned more) the shop keeper put the receipt and ownership papers in my fiancé's name! I curtly asked her to change them! This stuff drives me crazy, and also my now husband as I constantly point these mishaps out to him ... lol. Although I find things are changing as the people who work in financial institutions are getting younger and are more conscious of gender equality.

PK My then partner (but now husband's) first name is Tony. If I would speak with someone about something to do one of our many jointly-owned items (car, house etc) I would often need to correct the person when they referred to Tony as 'she'. I even had a call centre person once say to me, "I've just fixed up the spelling of Tony and replaced the 'y' with an 'i' (as in Toni)". Assumptions abound.

SN I'd find some new people to deal with, ones that have similar values to you. I applied for an investment loan with a big bank and the manager chuckled and asked why a young woman would want to be in so much debt on her own (I could comfortably service the loan). I asked if he'd say that to a man and when he stumbled, I politely took my lucrative business elsewhere. I now have a great relationship with a bank manager who wouldn't think to say something like that. Let your money do the talking.

DF Couple of years ago we got a new credit card to go with our joint bank account & mortgage. We put DH as primary card holder as he works full time & I work part time. With the credit card came 2 airport lounge cards for free airport lounge passes each year. Found out that I can only use the lounge pass if I am traveling with DH. We both called the bank and the lounge pass company to complain long and hard to no avail. We changed banks. Infuriating!

CT I went into the bank the other day and they said had I now found a job? I asked why and they said they had me listed as unemployed for the last 11 years. 😞 I went on maternity leave for 6 months back then and have had regular pay going into my account since....

JS I don't know who you've been dealing with because I was in the Finance Industry for many years and always asked who wants their name first on a joint account. A young man and woman were about to be married. The husband-to-be said "me", and she disagreed, boy did a fight ensue and I had to leave the room. Turns out she didn't realise his strong beliefs about it. As for the credit card you can't have 2 primary cardholders, the primary cardholder is responsible for the debt and has control over what's known as an additional cardholder. It's the system. Again though I pointed out the implications and generally speaking the person with the highest income and or lowest level of liability would become the primary cardholder, not based on gender. We would have expected a complaint if we didn't ask, it was normal practice.

HP I find this very weird. As an accountant I will either default the first person in a couple or even business partners to be the person who mostly deals with us. If the contact is split equally or they are new clients I use the alphabet approach to decide who to put first. I totally hear your frustrations!

BS Ok I've just read over 200 comments on this topic and it's obvious that the systems (particularly financial) in many areas of our lives are still causing astonishment and frustration that we are still having to put up with things which indicate our position in the world. We have to deal with it, argue, fight against inequality and injustice in our everyday lives. However a few people have said these frustrations should not be compared to #metoo.

MH When I tried to get a loan for my first property (more than 20 years ago now) I tried about 6 banks before I found one which would lend to a single woman. Whenever there was paperwork, they were looking for someone else like some husband or father or male authority figure to sign. There was just me. I'm very surprised to hear that things haven't changed since then. When I sold the unit a few years later I remember the estate agent told me someone had made an offer. I said "I'll sleep on it and let you know tomorrow." He said you'll need to discuss it with your husband." I said "I'm not married." He said something like "well your father then." I said "my father is dead, I've got no family here, I own the property so I'll think about the offer and ring you back tomorrow." It's amazing that I remember these conversations from more than 20 years ago because I was astounded at the time that those attitudes existed then. I find it hard to believe this kind of thing is still going on.

JW It's the worst. I'm a dependent as I'm not working full time at the moment. I'm the same level as our kids!!!!!! The financial industry has a lot of catching up to do.

CH I'm 70 now and can't believe that this stuff is still happening. I thought we got it sorted in the 70s! Backlash!

KD Try changing your electricity or phone plan, and after you created the accounts and 20 years of paying the bills – because he has NO interest in this – you'll find that you can't because he is the account holder (they will confirm that you are allowed to pay the bills though – just not manage or change anything). I can't help but think that this could add another layer of complexity if you need to flee the family home – no official computer history of owning an account.

AM Oh yes. My husband and I separated four years ago, but Telstra won't let me transfer the account for our family home into my name. We don't have an existing contract. It's just that they won't transfer ownership of the account that I pay for, relating to the home that I pay for and live in, to me. He and I get along ok, but imagine being in a situation of abuse and not being able to communicate via phone, text or online just because you're the woman.

KB It's not just banks, I checked into a hotel for a conference last night (using my details, my booking request and my email address) and it was automatically put down as Mr and they asked when my husband would be finished at the conference and joining me 😊

BS A friend of mine had a husband who died and Telstra would not close his a/c without his consent. They kept sending bills. She had to go to the ombudsman to resolve it. They kept saying he had to authorise it.

JS The primary cardholder is responsible for the debt and has control of the card, they can withdraw the additional cardholder, view statements etc. Essentially the secondary cardholder has no power. It's due to a number of factors which, now when I think about it is a bit silly, but risk (it's considered an unsecured debt with high interest) is one as credit cards are generally speaking not so much asset based. Having 2 people able to increase limits is not what banks prefer. They default more often. I can't remember now if there is legislation as well. There are banking codes. But at the same time it's benefit is if one partner isn't working they can have an additional card which provides flexibility and credit to those temporarily not working, raising children etc.

RJC Agitate for change and be persistent. I have been successfully single for 15 odd years now and consequently primary everything – so I have not had this experience but just reading these stories makes me cranky. If you choose to share your life with someone you should do so equally, it's ridiculous in 2018 that this still happens.

JH Yep! Home loan letters are often addressed only to my partner. It's annoying. It was also my bank to start with.

SJ I've asked CBA twice to change my salutation from "Miss" to "Ms" and they say they've done it but it just reverts back to "Miss"...what the heck!

KP Despite going by Ms on forms my whole life (both when single and when married) I was entered as Mrs for years in my university directory, finally got it changed to Ms after lots of to and fro, changed job contracts within same institution and was re-entered into the database as Miss. I wish I could print this thread to give to people when they try to trivialise each separate instance that something like this happens!

MD Interesting, it is always worth thinking about whose name is on utility bills as well. When the bloke I shared my life with for 40 years died last year, his daughter, who was executor, used that to take control of our Telstra account, which included my Mobile and internet access. It took two weeks before she 'gave' me permission to keep my mobile number when I opened a new account. I was the one who paid the bills and was listed on the account but she was able to take control without her or Telstra checking with me.

KA Our bank offers travel insurance with our credit card but because I have been named the secondary person on the card I cannot have insurance if I travel overseas without him

CH I once almost got arrested at the NAB branch in Chinatown when they wouldn't let me pick up our new credit cards without ringing my husband first. I was vociferously livid: the security guy had to come over!

DM When we bought a new house a couple of years ago, husband did the running around getting contracts etc but I dealt with all of the negotiations and bidding. He was explicit with agents that he wasn't dealing with negotiations but agents consistently wanted to talk to him about it. It was annoying but it worked to our advantage because they underestimated me in making the deal.

KA I had a similar thing where my husband's supplementary credit card linked to MY BUSINESS was hacked and I, as the account owner rang to cancel it. I was told they'd have to speak to him and get his approval first. I kept escalating and screaming at people until eventually they saw reason. AND THEN the stupid bank (WESTPAC looking at you) had the audacity to send HIM an email asking how HIS experience was. Needless to say, I sent them back a VERY terse letter telling them MY experience sucked. I was sent an apology by the banks customer relations people. The same type of thing happened with our mortgage, when I, as the primary breadwinner, had to put him on the phone to say "talk to her". Dear god these banking people are stupid!!

JS When I was renovating my unit I did all the work and there was no husband. I came home in tears one day from men in trades places treating my like an idiot and seeming disinterested in explaining because I was a woman as opposed to a person who is learning. I'm a woman I just wouldn't get it? Well I showed them. Needless to say the place looked amazing and there was no hiccups whatsoever... I haven't had it in banking because I'm an ex banker and know what they should be doing.

AG My husband has deployed a couple of times and despite my having a power of attorney to act on his behalf, I still had issues with various institutions who insisted they wished to speak to him directly. 'Oh you are welcome to call him and leave a voicemail' I'd say breezily. 'But he's in Iraq for another 6 months so it'll be a while until he calls you back'.
As if deployment isn't difficult enough 😊

MT If it's any consolation I'm the secondary card holder on our accounts and the bank constantly treats me like a second class citizen. I can't order new products, they won't explain things like credit card fraud situations to me without the primary card holder 'coming on the phone'. It literally just happened again today where they sent the fraud warning to my wife, and when I tried to inquire about it, they wouldn't deal with me.

FR When we bought a house, my partner did most of the phone conversations (on behalf of both of us,

consulting with me) as his job gives him a bit more flex to call people during business hours. Bank, real estate and mortgage broker were fine and addressed emails to both of us. Conveyancer seemed to only want to talk to him- despite emails from both of us asking to both be copied on all correspondence so I knew what was going on- was just ignored. Made no sense at all (and got us in a pickle with a few forms that my partner assumed I had received and filled out that I had no knowledge of!)

DT This thread, although very interesting, is making my blood boil. I suspect many women manage the financial affairs and are decision makers. It's in the best interest of these institutions, car sales workers etc. to accept that women are at the very least equal and should be treated as such. There's no way my 11yo daughter would put up with some of these experiences, which I too have encountered. Now I need a coffee. Good day chatters!

AP I found out that our mortgage package had been set up in my hubby's name, not mine, even though we were using my bank and not his. When I queried it I was told the broker probably did it in the name of the person who earned the most, to which I replied it should still have been me. I'm an engineer and if I take my hubby along to industry functions he usually gets asked where he works and I'm assumed to be the plus one.

MT Something I've found that works sometimes is to actually raise a formal complaint. That tends to get escalated to a more senior person who can often effect change, or at the very least address your specific issue. Different sector but something happened with Optus recently and I ended up just pushing it to a formal complaint, and although it took some time to resolve, I managed to get \$10 a month off my bill for 2 years because one of their customer service reps got it wrong and I was disadvantaged as a result.

LC Well I'm staggered that so many fresh stories are still coming into this thread days later. If ever we needed evidence that sexism is alive and flourishing in 2018 ... I dunno, I'd have hoped that the Sex Discrimination Act of 1984 😊 (that's 34 years ago, longer than a generation) might have rendered the bad behaviours of car salesmen, tradesmen, banks, insurance cos, utilities etc. etc. not only illegal but by now, invisible, reformed, or redundant. I mean, those banks, what are they thinking? Don't they have compliance people to check this stuff isn't still happening? Surely, it isn't still actual policy?? I swear there's enough fodder in here for reams of social research, hours of radio docs and a book or two. 😊

Bank reporting season scorecard for FY18








Hugh Dive

On Monday this week, Westpac ruled off the 2018 financial year profit results for the Australian banks. In the words of Queen Elizabeth, 2018 could only be described as an *annus horribilis* for Australian banks and their investors. The CEO of one major bank lost his job, the revelations of the Financial Services Royal Commission

resulted in remediation provisions and a spike in legal fees (which should see new sports cars and houses at Palm Beach for sections of the legal community this Christmas), fines were levied and credit growth slowed. An environment of fear has weighed on bank share prices.

There are common themes emerging from the banks in the 2018 reporting season. We will differentiate between the major trading banks and hand out our reporting season awards to the financial intermediaries that grease the wheels of Australian capitalism.

Reporting season scorecard October 2018

Code	Share Price	Cash earnings growth (including one offs)	Dividend growth	Net interest margin (reported)	Impairment charge as % of loans	Capital Ratio	Return on Equity	Forward PE Ratio	Forward dividend yield	2018 total return	Summary of 2018 result
WBC	\$ 26.92	-1.00% 	0.0%	2.05%	0.10% 	10.6%	13.0%	11.8	7.0%	-9.9%	Pros: Very low bad debts, solid balance sheet and guiding to lower expenses Cons: Weaker NIM, higher remediation and compliance costs
ANZ	\$ 26.15	-4.2%	0.0%	1.87%	0.12%	11.8% 	11.0%	11.4	6.1%	-4.9%	Pros: Capital stronger and bad debts falling Cons: Big fall in bad debts was a key driver of profit growth, weakest loan growth among the majors in Aust housing
NAB	\$ 25.66	-14.0%	0.0%	1.84%	0.14%	10.2%	11.7%	11.5	7.0%	-8.9%	Pros: Bad debts low, contraction in margin better than peers Cons: High remediation charges, weakest capital position, future dividend cut in 2019
CBA (Aug 2018)	\$ 68.95	-4.8%	0.50% 	2.15% 	0.11% 	10.7%	14.1% 	12.5	6.3%	-7.8%	Pros: All round solid set of results, navigating management change in 2018, good capital position Cons: Compliance costs rising, market share losses in mortgages and business

Source: Company reports, IRESS, Atlas Funds Management

Scaling back the empire

The main theme from 2018 was the breaking down of the *allfinanz* model that the banks built up carefully over the past 30 years. *Allfinanz* or *bancassurance* refers to the business model where one financial organisation combines banking, insurance and financial services such as financial planning to provide a financial supermarket for their customers. This is based on the somewhat false assumption that the bank's employees can efficiently cross-sell different financial products to their existing customers at a lower cost than if this was done by separate financial institutions. It creates some of the conflicts of interest that have been on display at the Royal Commission.

Over the past year, the Commonwealth Bank sold its life insurance business to AIA and the asset management business a week ago to Mitsubishi UFJ for a very solid price. Similarly, ANZ exited both its wealth management and life insurance businesses. NAB also announced plans to sell MLC by 2019. Additionally, Westpac has reduced its stake in BT Investment Management (now renamed as the Pandal Group). These moves acknowledge that creating vertically-integrated financial supermarkets was a mistake. If adverse rulings are made on vertical integration in the Royal Commission's Final Report, most of the banks will have already made moves to simplify their businesses, so shareholders won't be exposed to significant 'fire sales' of assets by motivated sellers.

Profit growth hit by remediation

Across the sector, profit growth was subdued in 2018 as the banks grappled with slowing credit growth, the application of tighter lending standards, customer remediation and legal costs. The table above looks at the growth in cash earnings *inclusive* of these costs. Whilst many companies encourage investors to look through these charges, ultimately these are real costs that impact the profits available to shareholders, and in aggregate the four banks have set aside \$1.3 billion to cover customer remediation.

Westpac reported the strongest cash earnings by cost control, very low bad debts and a lower level of customer remediation charges. NAB brought up the rear due to both \$755 million in restructuring costs and \$435 million in customer remediation charges.



Bad debts stay low

A big feature of the 2018 results for the banks has been the ongoing decline in bad debts. Falling bad debts boost bank profitability, as loans are priced assuming that a certain percentage of borrowers will be unable to repay. Additionally, declining bad debt charges year on year creates the impression of profit growth even in a

situation where a bank writes the same amount of loans at the same margin. Bad debts fell further in 2018, as some previously stressed or non-performing loans were paid off or returned to making interest payments. The main factors causing this fall has been the low unemployment rate and a near absence of major corporate collapses over the past 12 months.

Westpac and Commonwealth Bank both get the gold stars with very small impairment charges courtesy of their higher weight to housing loans in their loan book. Historically home loans have attracted the lowest level of defaults.



Shareholder returns hold as dividends steady

Across the sector, dividend growth has essentially stopped, with Commonwealth Bank providing the only increase, two cents, over 2017. In an environment where loan growth is slowing, provisions rising and the management teams regularly appearing either in front of the Royal Commission or before our political masters in Canberra, it would be imprudent for the banks to raise dividends.

In 2018, dividends were maintained across the banks, which was a surprise in the case of NAB. It paid \$1.98 in dividends on diluted cash earnings per share of only \$2.02, a very high payout ratio and not a sustainable situation given that the bank's capital ratio is below the APRA target of 10.5%.

Looking ahead, dividend growth is likely to be subdued in 2019, as the banks digest the outcome from the Royal Commission. ANZ and Commonwealth Bank shareholders can expect capital returns in the form of share buy-backs to offset the dilution from asset sales. In 2018, ANZ bought back \$1.9 billion of its own stock, with an additional \$1.1 billion due over the next six months. The major Australian banks in aggregate are currently sitting on a grossed-up yield (including franking credits) of 9.4%, an attractive alternative to term deposits.

Interest margins

The banks' net interest margins [*(Interest Received – Interest Paid) divided by Average Invested Assets*] in aggregate declined in 2018, reflecting higher wholesale funding costs and borrowers switching from interest only (which attracts a higher rate) to principal and interest mortgages. This switching was done in response to regulator concerns about an overheated residential property market, and in particular the growth in interest-only loans to property investors. Looking ahead to 2019, margins should recover courtesy of a rate rise of around 0.15% announced in mid-September. All the banks put through a similar rate rise with the exception of NAB, and it will be interesting to see whether NAB increases its market share as a result of this or follows suit at a later date.



Total returns including share prices

All the banks have delivered negative absolute returns, also trailing the S&P/ASX200 which eked out a small gain of 0.24%. The uncertainty around the outcomes from the Royal Commission, rising compliance costs and slowing credit growth has weighed on their share prices. Westpac has been the worst-performing bank, mainly due to concerns about lending standards in the \$400 billion mortgage book, though we are yet to see any adverse evidence in the form of rising bad debts.

– No star given –

Our overall view of the future

It is hard to be a bank investor at the moment and some fund managers are advocating avoiding them all together.

We view that at current prices, investors are being paid an attractive dividend yield to own solid businesses that have a long history of finding ways to grow earnings and navigate political minefields. Looking at the wider Australian market, the banks look relatively cheap, are well capitalised and unlike other income stocks such as Telstra, should have little difficulty maintaining their high fully-franked dividends. Additionally, the share prices of ANZ and Commonwealth Bank will see the benefit of share buy-backs, as the proceeds from the sales of non-core assets are received. The key bank overweight positions in the Maxim Atlas Core Equity Portfolio are Westpac, ANZ and Macquarie Bank.

Hugh Dive is Chief Investment Officer of [Atlas Funds Management](#). This article is for general information only and does not consider the circumstances of any investor.

Identifying value for money in active management

Tim Koroknay

With the proliferation of cheap passive and factor-based product being sold to retail investors, the importance of demonstrating 'value for money' has never been more important for active fund managers.

The recent decision by US fund manager Fidelity to offer an index product for free (zero fee!) clearly hit the mark when it comes to an effective marketing campaign. In the first month, this strategy [reportedly](#) raised over US\$1 billion. Clearly loss leading, but Fidelity will make money lending the stock to the 'short-sellers' and by attracting fee-paying clients to their client brokerage platform and asset management products.

Aside from the impact on the established index providers, consider the effect on 'active' portfolios on their platforms that run a traditional 'benchmark aware' approach. Regulators are also interested. Late last year, the New York Attorney-General and the UK Financial Conduct Authority proposed rules to crack down on closet indexers. The spotlight is firmly pointed on what represents true value for money when it comes to charging retail fees.

Institutional mindset

Benchmark aware or closet index managers run low tracking error and lower active share strategies largely for commercial reasons.

Institutional investors (pension funds) traditionally hired a fund manager to deliver investment returns aligned with an allocated risk budget, which is based on a broader strategic asset allocation decision. The unintended consequence has been a proliferation of benchmark hugging. So, what is wrong with that? Outcomes for clients have largely been achieved within a tight range. The problem lies with the cost for that offering in the retail market. If a client is paying small institutional fees, a reasonable return is still possible. However, such an outcome net of fees falls rapidly for retail clients, who are generally charged higher fee levels for the same portfolio.

Brand risk versus investment risk

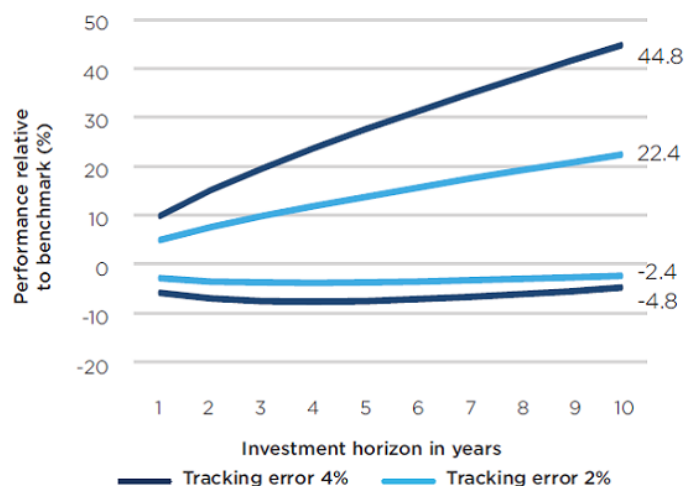
For an asset management organisation with a mature client base and a strong reputation, running a retail strategy with a lower tracking error can be a way to harvest fee revenue. By constructing a portfolio with tight constraints around a benchmark, if the manager has a bad year they won't underperform so much that their investors get nervous. Will clients fire the manager if they return the benchmark +2% or -2%? Probably not, if they have a strong brand.

Running a portfolio with low tracking error and low active share can mean a large proportion of the portfolio is already represented in the index. As a result, an unattainably high percentage of the 'active' stock decisions must be correct to deliver any outperformance after fees. That said, there have been many examples of highly-skilled fund managers running large portfolios in well-established institutions, who can achieve this consistent outperformance. Constraining a manager places greater emphasis on the consistency of correct decisions and discipline of process. It could be argued these individuals would be better suited to running a less-constrained approach with capped levels of assets in their own boutique investment management environment.

The true cost for retail investors is opportunity cost

The impact of limiting a skilled manager can be displayed in a simple theoretical model [[Klement 2016](#)]. The chart below shows the best and worst excess return outcomes (using a 95% confidence interval which implies a 2 standard deviation as shown in the chart) for a fund manager who has a reasonable level of

Theoretical model – best and worst return outcomes



Source: Fidante Partners

skill and ability to outperform. In more technical language, the skill in this example is an 'information ratio' of 0.5, implying consistent performance above the index relative to the active risk taken. This manager is managing two theoretical portfolios, one with a tracking error of 2% (light blue) and a second portfolio with a tracking error of 4% (dark blue).

In the worst possible case, with this manager underperforming, the lower tracking error results in the underperformance of the fund being halved. This is a reasonable outcome for the client and has protected some of the downside. However, the real cost of constraining a skilled manager is that the client upside is effectively halved if the manager performs well. In this theoretical example, in any given year the upper limit of the best possible scenario is reduced from 9.8% outperformance to 4.9%. The impact is over 20% when compounded over ten years.

Value for money in active management comes back to the skill of an investment manager

Core to this example is selecting a skillful manager that will consistently outperform over the longer term. If a retail investor can identify a skillful manager who has freedom to exercise that skill, this is likely to lead to the best outcome for retail investors. Conviction, skill and a consistent and disciplined process are key attributes Fidante Partners look for when partnering with boutique investment managers.

Tim Koroknay is a Senior Investment Specialist at [Fidante Partners](#), a sponsor of Cuffelinks. This article is for general information only and does not consider the circumstances of any individual.

For more articles and papers from Fidante, please [click here](#).

Residential exuberance usually ends in tears

Graham Hand

A year ago, most people looking for a catalyst to stop the five-year surge in residential property prices probably focussed on unemployment or interest rates. In the background were Chinese buying and rising supply. As events unfolded, the impact of regulators and the Financial Services Royal Commission delivered the heaviest blows.

The extent of the price correction was described by Greg Paramor, former Managing Director of the listed property group, Folkestone (recently acquired by Charter Hall). He is a past President of the Property Council of Australia. In a private talk to clients last week, he summarised current apartment market conditions:

"When you get an over-exuberant market, it normally ends in tears, and we're seeing some tears at the present time, particularly in the apartment market in Sydney, Melbourne and parts of Brisbane. Owner-occupiers in the right locations are still going well from people downsizing.

But the people at the coal face who are doing the project marketing to investors say about two months ago, the market just stopped. They say if they dropped the price 20%, nothing would change. There are no buyers out there. We've seen this with the banking system going through its changes and the pull back from international demand, particularly mainland China. We are seeing a real problem develop in the investor end of apartments. The credit squeeze has stopped people in their tracks and anyone with money is sitting back and waiting.

I think we'll see some good buying opportunities in coming years, 2021 or 2022, we'll be back where we started from where we haven't got enough supply. But there will be an overhang of second-grade, investor-focussed, poorly-planned apartments.

So the housing market is off, is it 10% or 15%? Will it be off 20%? Remember 1990. Possibly, it's happened before, and it will happen again. That's due to the recent over exuberance. We had a flat market from 2005 and it stabilised for a while, then it picked up strongly three or four years ago to above the long-term trend, and now it's pulling back. Wage growth is nil and employment is full but these factors have become secondary to the availability of credit. If you have to sell, I'm sorry, you'll have to weather a tough year or two, but the flip side for those wishing to enter the market, it's a lot cheaper to get in now."

Here is the latest data from CoreLogic, highlighted by the 7.4% fall in Sydney in the last year. Pockets of the apartment market are down much more.

Index results as at October 31, 2018

	Change in dwelling values			Total return	Median value
	Month	Quarter	Annual		
Sydney	-0.7%	-2.0%	-7.4%	-4.2%	\$833,876
Melbourne	-0.7%	-2.1%	-4.7%	-1.4%	\$665,044
Brisbane	0.0%	0.0%	0.4%	4.2%	\$491,925
Adelaide	0.2%	0.2%	1.8%	6.3%	\$431,554
Perth	-0.8%	-2.0%	-3.3%	0.5%	\$451,148
Hobart	0.9%	1.2%	9.7%	15.2%	\$445,655
Darwin	0.0%	-0.7%	-2.9%	2.5%	\$433,818
Canberra	0.0%	1.5%	4.3%	9.0%	\$589,415
Combined capitals	-0.6%	-1.6%	-4.6%	-1.2%	\$625,215
Combined regional	-0.2%	-0.7%	0.8%	5.9%	\$375,444
National	-0.5%	-1.4%	-3.5%	0.2%	\$538,668

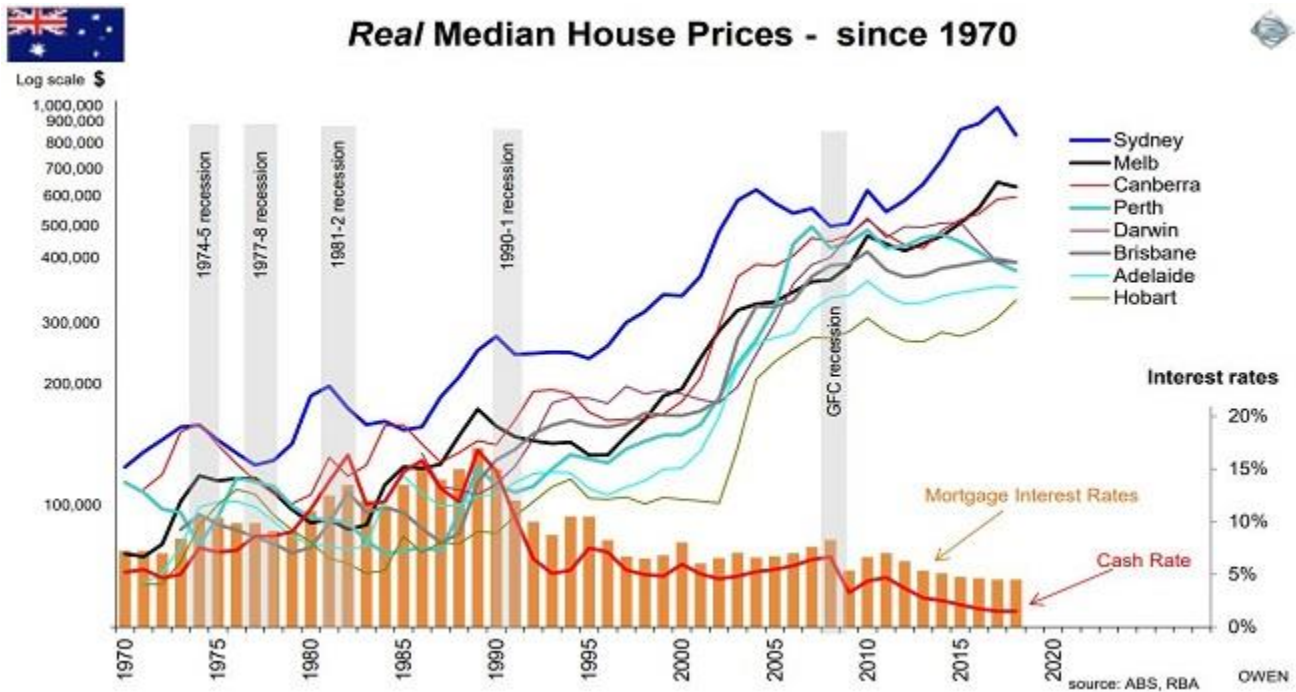
Source: CoreLogic

years of gains. Melbourne also ran strongly. Perth is a standout for mediocre performance, still at GFC levels in real terms. Hobart has rallied recently, while Canberra is holding its gains. There is no one national market moving in a uniform way, and comparisons in the same city or suburb depend on the type of properties sold.

The price falls in a long-term context

The following chart from Stanford Brown's Ashley Owen shows real (that is, adjusted for inflation) median house prices across Australia over almost 50 years. Most property owners have experienced good long-term returns, but there are often years of pain (I bought my current home in 1989 for \$430,000 and three years later, after "the recession we had to have", it was worth less). Recessions usually result in price falls as unemployment reduces demand.

Sydney surged ahead after 2012, but the recent falls have wiped out a couple of



Ashley's chart shows rate movements and recessions, but he can't show the changing lending policies in a chart. A couple of years ago, APRA became worried about too much investor interest-only lending, since the principal was not paid off, and introduced credit rationing. This was a mixed blessing for the banks, as it gave them permission to increase rates on their fixed rate mortgages. Then the Royal Commission found that banks and mortgage brokers had breached so-called responsible lending laws. These require banks to ensure borrowers accurately disclose their assets and liabilities, and the Commission revealed common practices of fudging the numbers by ignoring expenses and exaggerating income. Bankers have become much stricter in who they lend to and what they require.

What is the outlook?

Macquarie Bank economists wrote a market note this week forecasting national dwelling prices will fall for at least another 12 months, with Sydney and Melbourne down 15% to 20% from their highs. These two cities contain 60% of Australia's housing stock.

Most people who bought at the start of the surge have built up enough equity to accept this price fall as a typical correction. The most damage will hit those who bought a year or two ago with small deposits, and all their equity will be wiped out. There may be refinancing issues for those with three-year fixed rate deals, and

property developers and builders are also vulnerable. The recent major bank financial results showed continuing low bad debt experience, but the property market could fix that. At least Australia does not have the same system as in the United States where people with negative equity hand back the keys.

The loss of Chinese demand has been most dramatic in the investment apartment market. For years until 2016, Chinese developers delivered major projects to Chinese buyers who queued overnight to buy, and entire buildings sold out in hours. Most of this demand has disappeared along with the promise of capital gains.

Two further factors are on the horizon. First, a Labor Party win in 2019 may lead to implementation of their policies to tighten negative gearing eligibility and capital gains tax discounts. Second, the final report of the Royal Commission may force banks into even stricter lending conditions, especially if it results in fines for ignoring responsible lending laws.

A market that rises rapidly then gives back a quarter to a third of the gains is often seen as healthy, putting a lid on excessive exuberance. The correction appears orderly to date, but another 20% from here will leave far more on the table than a few tears.

Graham Hand is Managing Editor of Cuffelinks.

Committee Chair call to Cuffelinks readers

Leisa Bell

Of interest to your audience

Hi Graham,

I hope you're well.

As you know, the House Standing Committee on Economics has launched a formal inquiry into refundable franking credits. The objective of the inquiry is to give a voice to the hundreds of thousands of Australians who will be directly impacted by any change to policy.

Submissions for the inquiry are ongoing. As Chair of the Committee I am very keen to make sure we have submissions from everyday Australians who are going to be impacted, and who may want to be part of a broader campaign to stop unfair changes.

To that end we have designed a simple website where people can make direct submissions to the inquiry including a standard template, as well as opportunity for people to enter their own information if they choose.

The website can be found here: <https://stoptheretirementtax.com.au/>

It would be immensely helpful if you are able to promote it to your audience so they know there is a clear and simple way to make a submission and have their voice heard.

Please don't hesitate to contact me if you any questions.

Kind regards,

Tim

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