Firstlinks
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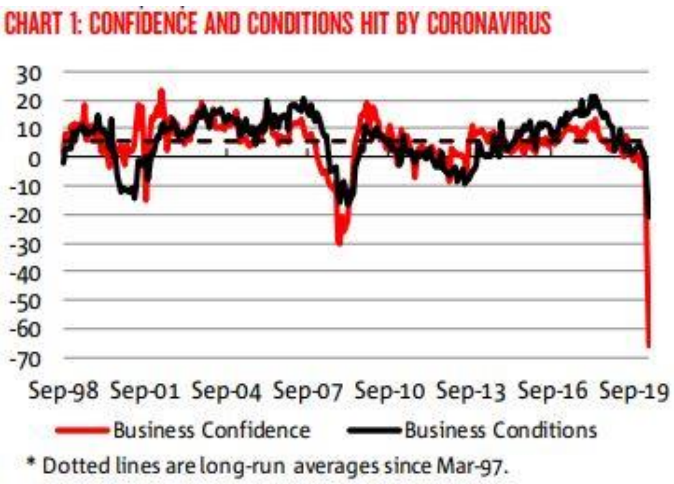
Editorial

The Great Lockdown will be the worst downturn since the Great Depression, says the International Monetary Fund. It warned this week that the Australian economy will slump by 6.7% in 2020, followed by a recovery in 2021. While the economy is not the stock market, there's a disconnection at the moment. Despite the poor outlook, price/earnings ratios in both the S&P/ASX200 in Australia and the S&P500 in the US are still well above long-term averages.

The latest **NAB Business Confidence** survey shows what companies are facing:

"Business confidence saw its largest decline on record and is now at its weakest level in the history of the NAB business survey ... Business conditions also declined sharply in aggregate and across the bulk of industries ... Forward orders collapsed to their lowest level on record, while capacity utilisation also saw a sharp decline. Overall, the decline in forward orders and business conditions imply a large fall in GDP in the next 6 months."



Likewise, in March 2020, the **Westpac-Melbourne Institute Index of Consumer Sentimen**t fell by the single biggest monthly decline in the 47-year history of the survey.

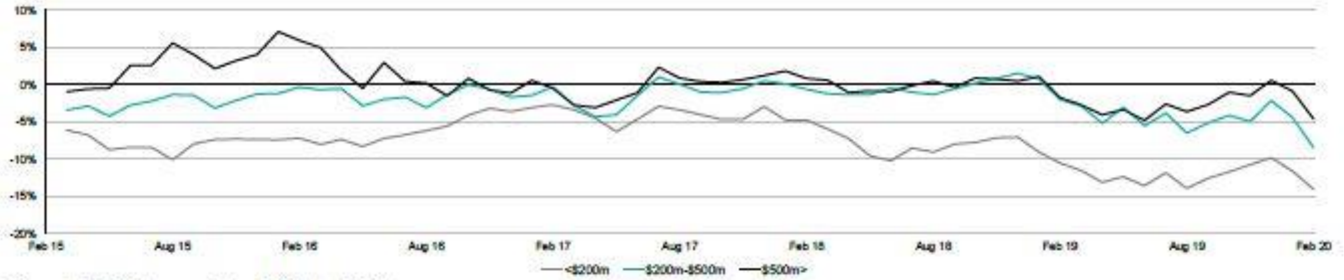
It's a pivotal week for global stock analysts as the US March quarter company earnings reports are released. If March is bad, June will be worse when the full impact of coronavirus will be felt. Expect reluctance from companies to provide 'earnings guidance'.

The variance in optimism and interpretation of turning points is creating the market's volatility. In only five days until yesterday, battered stocks like Afterpay rose 45%, Corporate Travel 52% and Flight Centre 35%. In the US, casino operator, Wynn Resorts, was forced to close in Las Vegas and Boston. Its shares initially fell

75% from $140 to $35 at the peak of the panic, then rose 140% to $84 before falling again to $46. The market has no idea how to value it.

In Australia, it has been disappointing to see the discounts on Listed Investment Companies (LICs) and Listed Investment Trusts (LITs) widen even further from their net asset backing, especially the smaller vehicles. As if it is not bad enough that asset values have fallen 50% in some cases, but investors face a further hit if they want to sell, as shown below.

Premium and Discounts to NTA for LICs and LITs by market value



Source: IRESS, Company Data, Bell Potter Estimates

As **Bell Potter** reports in its weekly update, the giant $1.3 billion LIC raising by **L1 Long Short Fund** in 2018 at $2 a share, now trading at $1 after a low of $0.66, still cannot find any friends. The fall in NTA is worsened by a discount of about 30% (as at 7 April). Its IPO was launched with minimum raise of only $100 million, but they could not resist the stampede of money.

Of course, the worst-performing funds in any heavy sell-off are geared funds, as this article warned in January 2020: "Duh! Of course geared funds won, but know the risks". Now the article would be, "Duh! Of course geared funds lost". These funds are a good way to leverage into a rising market, but are not for the faint-hearted, as shown below for the month of March (source **Morningstar Direct**):

Group/Investment	Morningstar Analyst Rating	Morningstar Category (Australia Fund)	Return (Cumulative) March 2020 (%)
Perpetual Wholesale Geared Australian	Neutral	Equity Australia Large Geared	-48.51
Ausbil Australian Geared Equity	Neutral	Equity Australia Large Geared	-48.47
SGH Property Income	Bronze	Equity Australia Real Estate	-40.44
SG Hiscock Property	Neutral	Equity Australia Real Estate	-40.30
CFS MIF-Geared Share	Neutral	Equity Australia Large Geared	-39.82
SG Hiscock Property Opportunities	Neutral	Equity Australia Real Estate	-39.26
APN AREIT	Silver	Equity Australia Real Estate	-36.87
Zurich Investments Aus Property Secs	Gold	Equity Australia Real Estate	-36.75
Cromwell Phoenix Property Securities	Silver	Equity Australia Real Estate	-35.19
Vanguard Australian Property Secs Idx	Gold	Equity Australia Real Estate	-35.13

This table also shows how property trusts have struggled, victims of a pandemic the likes of which nobody expected. How many people thought property would be a defensive asset?

Graham Hand, Managing Editor

Magic money printing and the reality of inflation

Tim Congdon

Lockdown measures due to coronavirus in 2020 will lead to unprecedented falls in national output across the main advanced countries and many developing countries. The reductions may be of the order of 10-15%, perhaps even more. They must mean that the average citizen is worse off. We cannot consume something if it has not already been made.

Governments are trying to limit or even to suppress the consequences of the economic decline by running enormous budget deficits and financing them by borrowing from banking systems, particularly at the moment from central banks.

How does the financing work?

When a government borrows from its central bank, it registers a new debt – which may take the form of a Treasury security such as a bond – with the central bank. In principle, the government is supposed to repay that debt at a future date. In return for the Treasury security, the central bank credits a sum to the government's deposit account. The government can then spend the deposit on whatever it wishes.

Since all the transactions are in the form of electronically-recorded book entries, they have no apparent resource cost. The central bank appears to offer the government a virtual 'magic money tree'. On the face of it, abracadabra has become the key formula of contemporary economic statecraft, so that – miraculously – the coronavirus epidemic has no adverse financial implications for the government and citizens.

Believers in the gold standard may express their outrage, but they need to understand that the government can confer legal tender status on the central bank's liabilities, such as the notes that it issues. Further, if someone refuses to accept legal tender notes in payment, that is breaking the law.

The modern world is one of legal tender 'fiat money', where the word 'fiat' is Latin for 'let it be done'. More brutally, it is commanded from on high without further ado. In this world, the printing of money enables the state to pay for anything. Indeed, this power is practically unlimited, since the printing presses can be multiplied and instructed to print ever-higher denominations of notes.

The magic money tree and the laws of physics

Unfortunately, there is a problem here. The printing of money sounds great, but it cannot break the laws of physics. To repeat, we cannot consume something if it has not already been made. If national output drops by 10-15%, people have 10-15% less of everything to consume or invest. That constraint must apply, regardless of the gimmickry of legal tender and the printing press.

What is wrong with the supposed 'magic money tree'? The trouble is this. When new money is fabricated 'out of thin air' by money printing or the electronic addition of balance sheet entries, the value of that money is not necessarily given for all time. The laws of economics are just as unforgiving as the laws of physics. If too much money is created, the real value of a unit of money goes down.

Inflation reduces the purchasing power of a dollar, a euro or a pound, so that – in the end – if output drops by 10-15% in real terms, then so must consumption and investment in real terms.

The Federal Reserve switches on money growth

Traditionally, the USA was a bastion of sound money and strong public finances. In Latin America, dictators bullied central banks into printing money to finance extravaganzas of various sorts, leading to the crazy hyperinflations seen in nations like Argentina, Chile and Peru, and today – tragically – in Venezuela. But a worrying recent development is that, even in the USA, the public policy response to the coronavirus is leading to rapid money growth.

President Trump declared a national emergency on Friday, 13 March. Over the following fortnight the Federal Reserve, the USA's central bank, announced a number of dramatic policy changes to help the Federal Government in the financing of its deficit.

This might be termed technically 'monetary financing of the deficit' or something of the sort, but in truth it is just the same thing as letting it become a magic money tree. New fiat money would be added to the economy, in just the way described above.

The Fed would also resume so-called 'quantitative easing' (QE), with large-scale purchases of assets (including Treasury securities) from both banks and non-banks (QE was previously used from late 2008). When the asset purchases are from non-banks, the result is an immediate dollar-for-dollar increase in non-banks' holdings of bank deposits, which are money. Moreover, the Fed would become involved in direct finance to companies where cash flows had been disrupted by the lockdown, just as if it were a local bank.

The impact of these developments is already evident in the balance sheets of the USA's commercial banks, which are tracked every week in a Fed press release. In the week to 18 March, deposits increased by 2.2%, in the week to 25 March by 2.6% and in the week to 1 April by 1.0%. So bank deposits – the main kind of money in a modern economy – jumped by almost 6% in a mere three weeks.

If this were to continue for a year, compound interest would cause the quantity of money to jump by roughly 175%, a truly Latin American pace of monetary growth.

Plainly, the three weeks to 1 April were exceptional. Everyone was alarmed about the short-run harm to output and employment from the coronavirus lockdown. The Trump administration was reacting with drastic and unprecedented measures to maintain spending power and to protect jobs, as well as to spend the money needed to save lives. The Federal Reserve is the government's banker. It would have been suicidal – in terms of public relations – to have refused financial help.

The laws of economics are as unforgiving as the laws of physics

The Federal Reserve's preparedness to finance the coronavirus-related spending may prove suicidal to its long-term reputation as an inflation fighter. Of course, the US Government will not repay its debts at the Federal Reserve while it is running an annual budget deficit of $3,000 billion to $4,000 billion. In the modern world, the state can create money out of thin air, but it cannot create new goods and services in the same way.

If too much money is manufactured on banks' balance sheets, a big rise in inflation should be expected. The laws of economics apply without discrimination to both Latin American countries and the USA.

Professor Tim Congdon, CBE, is Chairman of the Institute of International Monetary Research at the University of Buckingham, England.

Professor Congdon is often regarded as the UK's leading exponent of the quantity theory of money (or 'monetarism'). He served as an adviser to the Conservative Government between 1992 and 1997 as a member of the Treasury Panel of Independent Forecasters. He has also authored many books and academic articles on monetarism.

Fear and greed in markets: where to from here?

Jun Bei Liu

The past few weeks have been a time of unprecedented turmoil and volatility in global equity markets. Closer to home, the Australian equity market had its fastest 30% fall in the history of the Australian Securities Exchange, with only the 1987 crash coming close in terms of severity. It took a week longer during the 1987 crash to reach the 20% drawdown mark.

However, what has also taken the market by surprise has been the speed of recovery in prices. Since bottoming in late March, many companies have more than doubled in price in just two weeks, ahead of potential earnings downgrades.

Extreme volatility such as this is a sure sign of investor uncertainty and lack of conviction. Equity markets have always been forward-looking, with movement merely reflecting changes in future expected earnings of the companies, magnified by sentiment such as fear and greed.

Where are we now?

To assess where we are in the current equity market cycle, it is important to take stock of some of the economic realities.

Investors' fears are well-warranted. Western economies have responded to the spread of COVID-19 by shutting down social events, venues and other gatherings, which has seen a vast number of casual staff being laid off. For most OECD countries, over 60% of their GDP lies in consumer spending, and a consumption-led recession will inevitably lead to a material rise in unemployment over the next three to six months.

On a positive note, because equity markets are forward-looking, if authorities are able to control the COVID-19 outbreak quickly, it would see many companies' earnings bounce back reasonably quickly, particularly with the significant pending stimulus. Trillions of dollars around the world has been deployed to stimulate economies, much of that yet to be spent. Central banks have learned that during times of stress, keeping money flowing in the economy is paramount.

Based on the action plan announced by the Reserve Bank of Australia, the Federal Government and other regulatory bodies, we believe the stimulus plan is sufficient for the current environment. One key variable at this stage is how long we will be in lock-down before consumers can be allowed out to spend the stimulus provided.

Australia has continued to manage the outbreak of COVID-19 much better than most other countries. We attribute this to the early and decisive actions taken by State and Federal Governments to close borders and introduce mitigation strategies to slow the rate of contagion. This, along with world-leading COVID-19 testing, has ensured the epidemic has had a manageable impact on the hospital system.

The focus of investors and the broader population is now turning to when these measures can be relaxed given the extraordinary impact on the economy and Government finances. We expect the Government to take a cautious approach such that the current social distancing and work from home policies will likely, to a large extent, remain in place for some weeks, if not months, yet. However we are hopeful things will start to normalise by the start of the new financial year.

Portfolio positioning

As an active manager, we see current market conditions as ripe for opportunity to add to high quality portfolio stocks, while maintaining an overweight in quality defensive sectors such as healthcare. Stock specifically, the top 10 holdings in the Tribeca Alpha Plus fund have delivered exceptional returns since the crisis hit.

Fisher and Paykel has upgraded earnings twice, largely as a result of the surge in demand for its hospital respiratory products (which account for more than 60% of group revenue).

A2 milk has surprised the market with its resilience across its distribution platforms. Mothers in China flocked online to stock up on quality-branded infant formula and as a strong online player, A2 has been well placed to benefit. This will likely cement its brand in the offline Chinese consumer segment too.

Coles Group is another top holding which has seen significant improvement in its sales as consumers are moving to stock up their pantries. It has also meaningfully outperformed its peers, including Woolworths, which we don’t hold in our portfolio.

More recently, we have increased our holdings in a number of other high quality businesses, including AfterPay and Tyro, both of which have short-term earnings sensitivity to economic conditions.

Our investment thesis for such growth businesses has always been premised upon their future growth opportunity, and the strength and longevity of their respective business models. One quarter of weak earnings does not change our view, although we are regularly testing our assumptions based on current economic conditions and duration of the COVID-19 lockdown. We have little doubt that once the market stabilises, these two businesses will meaningfully outperform. Indeed, at the time this article is written, both stocks have more than doubled since lows reached at the end of March.

Jun Bei Liu is Portfolio Manager at Tribeca Investment Partners. The information in this article is provided for informational purposes only. Any opinions expressed in this material reflect our judgment at this date and should not be relied upon as the basis of your investment decisions.

COVID survey results: All you need is LUV

Graham Hand, Leisa Bell

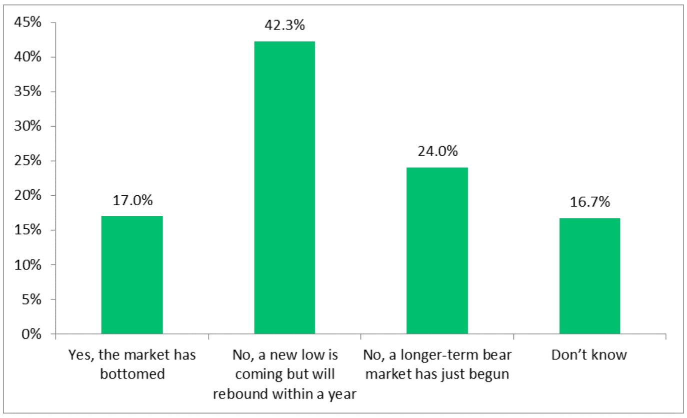
With over 700 responses so far, some surprising trends have emerged. The most informative feedback comes from the comments, which can be accessed in the full report, linked here. An analysis of results is presented below.

The survey will remain open until Monday 20 April on:

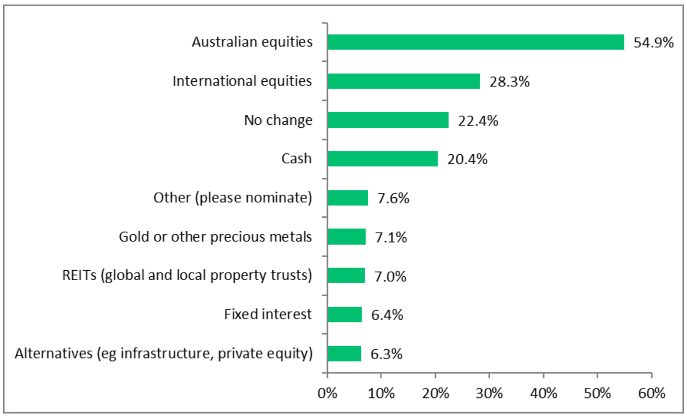
Firstlinks poll - the impact of COVID-19

Q1. Has the low point since January already passed?

The S&P/ASX300 closed at a peak of 7,115 on 20 February 2020 (seems so long ago) before falling to 4,500 by 23 March, and now clawing back to 5,443 on 14 April, making it down 23% since the high. Despite the recovery, only 17% think the market has bottomed, a similar number to those who 'Don't know'. Two-thirds of responses think a new low is coming, including a high 24% who say we are in a longer-term bear market.



Q2. Into which asset class are you investing more after the sell off?



Q3. How much has your portfolio lost?

The S&P/ASX300 is down 20% since the end of January 2020, and 40% of respondents estimate their portfolio is down at least that percentage. This suggests significant allocations to growth assets. Only 17% say they are up overall or down less than 10%, so relatively few have escaped with only a scratch.

ANSWER CHOICES	RESPONSES
Nil or up	2.71%
Down 0% to 10%	14.69%
Down 10% to 20%	40.80%
Down 20% to 30%	33.95%
Down over 30%	5.99%
Not sure	2.14%

Q4. How long until the economy recovers?

There's mixed feedback on the LUV recovery:

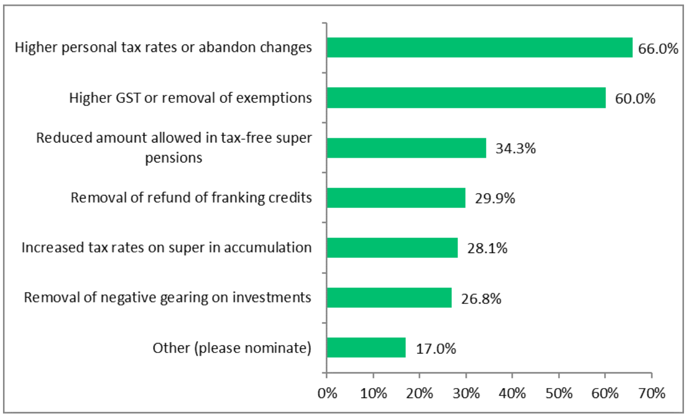
1. The '**L-shaped**' recovery, where GDP falls and stays down for a long time. This is supported by 40% who believe recovery will take two years or longer.
2. The '**U-shaped**' recovery, where output falls then drags along the bottom for a while, and spikes up as the economy improves. This shorter time period of one year to 18 months gained 43% of the vote.
3. The '**V-shaped**' recovery, with a sharp fall in GDP and a rapid recovery, but only 7% believe we can recover in three to six months.

A solid 9% are undecided on any type of LUV.

Perhaps there's a fourth variation, the 'W-shaped' recovery. NSW Chief Health Officer Kerry Chant says we should prepare for 'zig and zag' where coronavirus restrictions are eased and some liberties are restored, but they could be re-imposed if infections spike. There is potential to reopen parts of the economy if businesses demonstrate strong enforcement of social distancing rules.

ANSWER CHOICES	RESPONSES
3 months	0.71%
6 months	5.85%
1 year	16.69%
18 months	25.53%
2 years or longer	41.80%
Don't know	9.13%

Q5. When the crisis is over, what new Federal Budget policies do you expect?



The 'please nominate' responses are in the full report.

Q6. How well has the Government responded?

Amid strong support for the Government's actions on JobSeeker and JobKeeper, access to super, social distancing and stopping residential tenancy evictions, a large majority believe temperature checking and quarantining of people returning from overseas has been poorly handled.

I can verify personally how shoddy we were with returning overseas travellers. We disembarked the passenger ship Greg Mortimer on 4 March after a wonderful trip to Antarctica, and flew back to Chile. The ship then did one more expedition in Antarctica before sailing to Argentina on 15 March to pick up passengers for a 21-day cruise called 'In Shackleton's Footsteps'. They barely made it back to the first stop in the South Shetlands before they realised they had a problem.

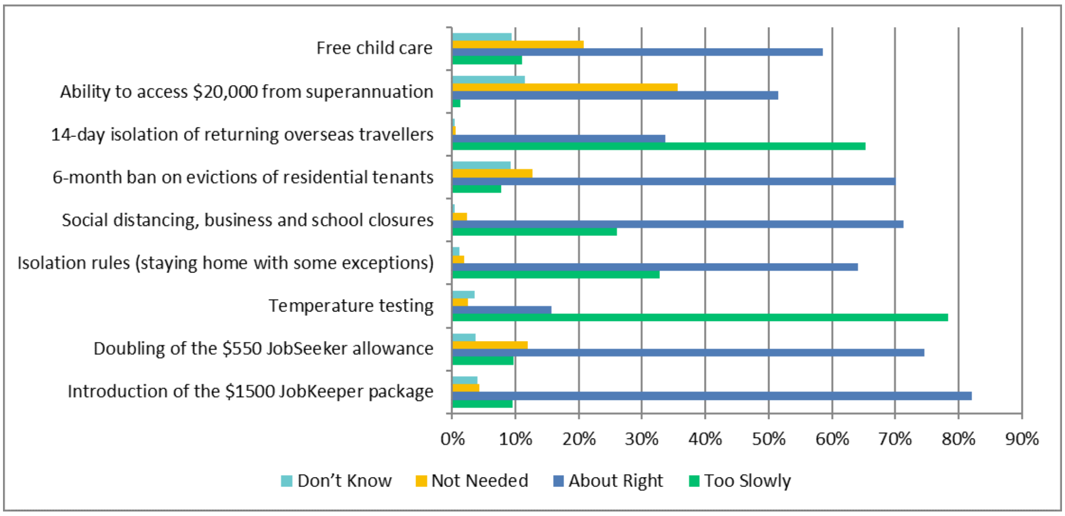
This is the ship on which Australian passengers were stranded for a month, mainly off the coast of Montevideo in Uruguay. A charter plane finally rescued the Australians and Kiwis last weekend, with the majority of them catching coronavirus.

We went on from Chile to Buenos Aires for a week, returning to Santiago on 11 March. At the airport in Chile, our temperature was taken twice, we had to fill in a detailed report on where we had been in the previous 30 days and then we were subject to an interview. It was well-organised and polite, but a thorough examination of all travellers.

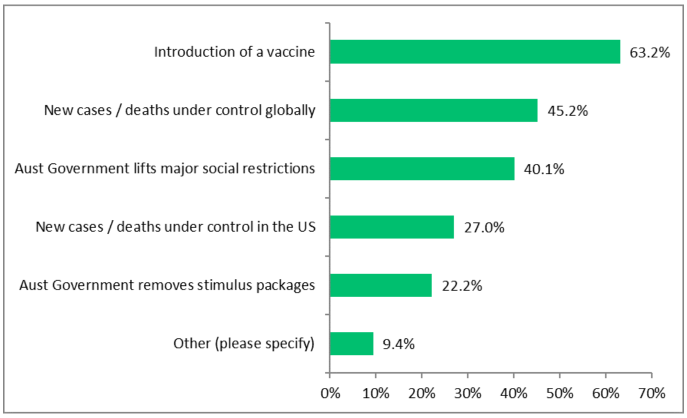
We dodged a bullet, as Chile closed its borders a few days after we left.

After the flight back to Sydney, on 12 March, we walked through customs in Sydney. No temperature checks, no forms to fill in, no interview. And now, two-thirds of all coronavirus cases in Australia are related to returning passengers. Obviously, Ruby Princess was a debacle but the mistakes were much broader. After countries around the world had introduced border checks, Australia was still waving people through.

The blue bars in the chart show our readers believe the Government acted 'About Right' in most instances, with strong support overall except the high green lines ('Too Slowly') in temperature testing and isolation of returning travellers. There's also decent opposition to the $20,000 release from superannuation.

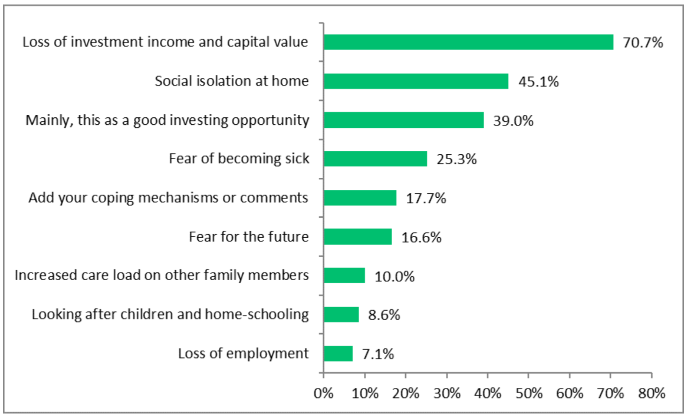


Q7. What will be the trigger for you to believe we are over the worst?



Q8. How has the pandemic affected you adversely?

Nobody has experienced a global pandemic before, and the implications are widespread. Everyone is feeling it in some way, although a surprisingly optimistic 39% responded, "Mainly, I see this as a good investing opportunity."



Q9. What will be some sustained consequences of COVID-19 when the crisis is over? Or any other general comments.

Over 400 comments were received for this question, covering a range of consequences including taxation, debt levels, holidays and travel, government policy, global trade, education, employment and spending. They are included in the full report.

Q10. Would you like Firstlinks to publish more regularly during the crisis?

Most readers want Firstlinks' coverage of the crisis to continue as we are. Some articles are posted to the website during the week, and we will continue this as we are receiving many contributions that are time sensitive.

ANSWER CHOICES	RESPONSES
Yes, I would like to receive an updated newsletter more often	14.61%
Yes, but a weekly newsletter is fine, only update the website	26.22%
No, don't change anything	58.88%

The shareholder now ranks last

Hasan S Tevfik

There is a clear change in the ranking of company stakeholders. To deal with the healthcare crisis, which is becoming an economic crisis, companies around the world have endured subtle, and not so subtle, pressures to re-arrange who they look after first among their stakeholders.

In normal times, and in more capitalist cultures, it is the shareholder that usually ranks as the most important stakeholder for listed companies. This has clearly been the case in economies such as the US, UK and Australia.

A round of redundancies for companies listed in these markets has often been cheered by shareholders with a rally in the stock price. Big distributions are paid to keep shareholders happy and often these distributions come at the expense of labour-market-supporting capex.

The result of a shareholder-focused equity market is clear. Profitability is higher, resources are used more efficiently and returns to the shareholder are greater. Plenty of wealth is created.

Coronavirus has changed priorities

However, the global pandemic has led companies to re-assess who they 'look after first' when conducting their business. While the shareholder has previously ranked first, we think they now rank last. Our guess of the current order of stakeholders in most developed countries, including Australia, is in Figure 1.

Figure 1: Stakeholder ranking for Aussie listed companies

Old	New
Shareholders	Employees
Creditors	Government/Community
Customers	Customers
Suppliers	Creditors
Employees	Suppliers
Government	Shareholders

Source: MST Marquee

Our thoughts here are supported by recent changes in how companies conduct their business. For example, succumbing to pressure from the Bank of England, UK-based banks announced a cancellation of their 2019 dividends (which still haven't been paid) and agreed not to carry out share buybacks. The UK regulator welcomed the change.

In the US, companies receiving emergency loans from the Federal Reserve's US$4.5 trillion facility will face temporary limits on what they can pay executives. They will also need to keep their workforces stable and face restrictions on shareholder distributions like buybacks and dividends. There have also been other efforts to help during the pandemic which makes it clear shareholders are currently not the most important.

European alcohol companies, like Diageo, often on the wrong side of the ESG stock screens, are now creating hand sanitiser to be donated. Fashion companies like Prada and Zara have shifted their focus to making surgical masks, also to be donated. Novartis has promised to donate enough doses of its malaria drug to treat several million people if trials show it is effective in fighting COVID-19.

Encapsulating all of this change, the CEO of Bank of America, the chairman of DSM (a Dutch chemical company) and chairman of Siemens and Maersk have written an open letter endorsing the change in stakeholder principles [where the shareholder seems to rank last].

Corporate actions in Australia

In Australia, the banks are providing loan repayment holidays at significant immediate cost to their own shareholders. They have also been asked to bear some of the pain in New Zealand. Prime Minister Scott Morrison has asked landlords, including REITs (listed property trusts), to 'work out the issues' with their struggling tenants, at a likely cost of considerable dividend cuts.

The Australian Energy Regulator has asked for a whole-of-industry-response to households and businesses enduring challenges. Meanwhile, Transurban said it will shorten the amount of time it uses to pay bills and proceed with current projects to employ people. However, the company seems to be putting its suppliers and creditors ahead of the broader community. While Transurban will help those customers who reach out to them, they stopped short of providing a blanket reduction in their tolls. We are not sure how many of their customers have the time to ask them for help paying tolls, or how many were listening to the analyst call, but it did seem like the 'lowest cost option'. We wonder if they'll change their mind given the government hands out contracts to them. Plus their largest shareholders, the industry super funds, have members who are renowned to be some of the most socially conscious investors in Australia.

Change in the face of a pandemic

We think the current message to corporate Australia is clear: 'Do Your Bit'. You need to help out and shareholders will endure pain in the short term. In our view, Australia Inc should adopt a whole-hearted approach here, not only for the livelihood of the broader community but also to generate goodwill with their other stakeholders, to allow for their business to return to normal when the economy does.

However, we need to also consider the rules to investing could be changing for some time to come. While less shareholder-focused companies are appropriate for now, over the longer term this could mean less efficient use of resources, wasteful investment and less wealth for everyone.

We hope the current era where shareholders rank last is temporary.

Hasan Tevfik is an Investment Strategist at MST Marquee. This article does not constitute a representation that an investment strategy or recommendation is suitable or appropriate for an investor's individual circumstances. It may not be construed as personal advice or a recommendation.

The $20,000 decision on early access to super

David Bell

As part of its economic response to the coronavirus crisis, the Federal Government is allowing those facing financial hardship to access their superannuation in two tranches of $10,000. Whether or not to 'tap' your super is an important decision. You need to think about the trade-off between your present situation and the one you may face in retirement.

Be aware that most people are myopic (we put much more weighting on the present versus the future) which is one of the reasons why governments around the world have mandatory savings schemes designed to provide support the funding of retirement.

To date, 620,000 people have already registered to access their super, so this policy has become a major issue for retirement savings and superannuation funds.

Some numbers to help you decide

Withdrawing your super now, all else equal, can only reduce savings at retirement, which means less income after you stop working. The degree of impact is unknown so we need to make some assumptions.

Using assumptions similar to those made by many super funds to provide retirement estimates on annual statements to members, we can estimate the possible impact on your super savings at retirement (in today's dollars) assuming you retire at age 67.

In the table below, we assume that your savings grow annually at a rate of 3% above inflation less administration fees (assumed to be 0.5%).

Current age	30	40	50	60
Reduction in retirement balance	$50,000	$39,000	$30,000	$24,000

There is a huge range in estimates of the impact of early access on retirement savings. Most disappointing is the ABC's claim that the impact could be $500,000. This is clearly incorrect.

It is just as important to consider the possible impact on your spending in retirement:

Current age	30	40	50	60
Reduction in fortnightly income from superannuation	$108	$83	$65	$52

The change in income above does not consider the age pension. Depending on your financial circumstances, the age pension may form a significant component of your income in retirement. Due to means assessment, a lower super balance at retirement may actually slightly increase the amount of age pension you receive.

To consider your own situation in more detail, play around with the many assumptions and assess different scenarios, financial calculators such as ASIC Moneysmart retirement planner are informative and easy to use.

Other factors to consider

There are many other factors to consider:

- Think about your household situation. Most people retire as a couple meaning that your joint financial situation is the one to focus on. An early access decision should be made jointly.
- Not everything to do with your retirement plan is in your control. Future investment returns are uncertain, as highlighted by the current crisis. And many people do not choose their retirement age (they often 'retire' because they can't find work). Planning for a retirement buffer is something to consider.
- You may be pulling money out of superannuation at a point in time when asset prices are depressed. While it is true that equity, credit and property assets are lower than a few months ago, it is far from certain that asset prices will rise over the short to medium term.
- You may have the ability to catch up on your retirement savings plan in better times. However, this takes discipline so perhaps plan for how you will achieve this.

Making a balanced decision

Superannuation combines mandatory savings with the power of compounding investment returns to produce better retirement outcomes and reduce the burden of funding the age pension on future tax payers. If you can leave your savings pot untouched then that is better for your retirement outcome. Super is also a tax-advantaged savings environment.

However, you may be feeling financial stress right now and that is not healthy. The early access scheme is designed to help people in this situation.

How to make a sensible decision? It may make sense to work through the following:

- Assess your current level of financial stress. Are you experiencing debt problems? Do you have the income to support your living standards? If you don't have one already, consider creating a household budget to help you assess living standards.
- Can you make some adjustments to your lifestyle? Perhaps reduce some spending on non-essential items during the crisis to make your household budget more sustainable.
- Have you accessed all the assistance programs which are available to you? There are a range of government support schemes to help those experiencing financial difficulty in the present environment.
- Think about your retirement plans (lifestyle but also the age at which you would like to retire) and consider the amount of retirement income that is required to support that plan. Include other parts of your life plan such as home ownership.
- Consider whether it is necessary to access your super once or twice (the early access programme allows for two separate withdrawals of up to $10,000 each).

Financial advice is valuable in situations like this. However, for some it may be expensive relative to your financial position. There are also financial counselling services available which may provide basic assistance.

For many people, the government's early access to super scheme may help to alleviate financial stress. But tapping your retirement savings pool will naturally impact your retirement. Take the time to make a considered decision, especially if isolation provides the chance to do some research.

For more details on who can access super early, see here. Note also that authorities are warning that some promoters are offering early access schemes (such as transferring your super into an SMSF). These schemes are often illegal and heavy penalties apply. For more information, refer to Illegal early release of super.

This is not financial advice and it does not consider any individual circumstances. An [ASIC class order] allows super funds to provide retirement projections on member statements. A similar approach is used for the projections in this article they are estimates only.

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Life and death restarting the Australian economy

Bruce Gregor

[This article uses data current as at 8 April 2020. The COVID-19 issue is moving so fast that the article's relevance may change with circumstances. Some principles will prevail which might guide a risk-managed return-to-work strategy.]

Australia needs to get back-to-work. The tricky part is how to go about it. For example, the Government has enforced a 14-day quarantining of all arrivals and overseas travel is banned (with some special exceptions). These two provisions need to continue until all major foreign countries have minimal active cases of COVID-19. We must not be intimidated into stopping this too early by airline and travel lobbies. The major source of our cases so far is contact made outside Australia by returning travellers. We do not need the arrival of people to keep our economy going.

Strength of our health system

Having isolated the older population of people over 70, we should have some confidence that our unique universal health care system can build extra capacity and allow a risk-managed return-to-work strategy. This is subject to giving top priority to looking after our health care workforce and ICU and ventilator capacity. The Government appears to be well on the way to achieving this.

The 'flatten the curve of cases' has been a simplistic strategy to show the initial largely imported cases have been accommodated. The future course of locally-transmitted cases, however, remains a big unknown. It will probably take building a model of the virus in action in an isolated region to determine its characteristics in a typical Australian flu season.

Overseas experience in the UK and Italy almost certainly indicates a high level local transmission although data is not yet available. I have therefore focused on death numbers to imply the level of stress on health systems. Proportionate to these death numbers will be the much larger numbers (possibly 3 to 5 times) of admissions to hospitals, some of whom will have already recovered and majority of whom may still be in care.

Table 1 below presents the latest data available (as at 8 April 2020) on the age distribution and other statistics of deaths in Australia, United Kingdom and Italy. It highlights the nature of the virus in other regions and small amount of data that we have to judge Australia's circumstances.

1. Covid-19 Deaths to date[1] by Age group and as % "normal" death rate

Age	Number of Covid19 Deaths			% Increase over "normal" Deaths[2]		
	Australia	UK	Italy	Australia	UK	Italy
0-9	0	0	0	0.0%	0.0%	0.0%
10-19	0	0	0	0.0%	0.0%	0.0%
20-29	0	0	2	0.0%	0.0%	0.5%
30-39	0	66	38	0.0%	19.2%	5.4%
40-49	0	225	159	0.0%	34.9%	12.2%
50-59	0	384	656	0.0%	27.4%	23.1%
60-69	5	850	2,028	0.3%	31.7%	37.3%
70-79	15	1,837	6,198	0.5%	39.4%	65.7%
80+	21	3,735	8,588	0.3%	29.9%	33.9%
Totals	41	7,097	17,669			
% > age 70	88%	79%	84%	[2]In proportion to period of deaths		

[1]Australia 6 April, UK 8 April, Italy 8 April

Some observations on the figures are:

- The percentage concentration of deaths in the over 70 age groups and the rationale for over 70s isolation is self-evident.
- The distribution of deaths in UK and Italy extend down into more younger age groups than Australia has experienced to date. A possible explanation is the number of the Australian deaths related to cruise ships and returning overseas travellers, who are often retirees. This suggests we need to build a database of the population with respiratory system risks (particularly under age 70) from a range of sources (Medicare claims, eHealth etc.).
- The numbers on the right-hand side show the deaths from COVID-19 as a percentage of 'normal' deaths which could be expected to occur (using for simplicity of calculation, Australian Life tables). Thus normal deaths plus COVID-19 deaths indicates the extra pressure on health system on average over the period.
- The more exceptional case of health system peak stress might be indicated by peak daily deaths (to date) relative to 'normal' daily deaths. This is shown in the table below.

2. Peak daily Covid-19 Deaths so far

	Australia	UK	Italy
Date	5/04/2020	8/04/2020	27/03/2020
Deaths	7	938	919
% of Normal Day Deaths	**2%**	**104%**	**94%**

The back-to-work strategy

The top epidemiologists in Australia are well aware of the risk of Australian transmissions breaking out to extreme levels as displayed in the UK and Italy, if current restrictions in place are released. The Government is being advised by the Doherty Institute. The Director of the Institute, Professor Jodie McVernon, is (based on seeing her in forums) a very experienced epidemiologist with a clear awareness of risk of such a breakout and able to communicate advice forcefully.

A back-to-work strategy must be carefully risk-managed based on advice from expert epidemiologists. We also need to consider the human health risks of people currently staring at screens at home and in isolation and the businesses that are shut down.

First, the small business sector is the major employer of people of all ages in our communities. These people take greater financial and personal risks than most corporations contemplate. They mortgage their houses to obtain capital, and must survive in industries with failure rates of 40% or more in the first five years. An enforced government shut down for six months may mean that when they start trading again, half their clients have gone or will be severaly strapped for cash. The health stress here extends to family and future life prospects and needs consideration.

Second, another imperative to get people back to work is social. Many people derive their main social satisfaction from work mates and customers. Sadly, some men and women find time at work is an escape from relationship tensions in the home. This extends to concern about domestic violence risk.

Third, adolescent and young adults at high school and university face mental health issues which can quickly become catastrophic. The lack of social groups and peer support will be an increasing health risk.

The back to work strategy is therefore a judgement between, on the one hand, confidence of epidemiologists in the future behaviour of the virus in Australia versus the concern for population health of the unemployed and socially excluded. The limit of financial budget support is the time pressure to put the best minds available into action advising government.

The population needs to trust the difficult government decisions and balancing act.

Possible principles and frameworks for a risk-managed return-to-work and school

To allow (almost) everyone to go back-to-work and school will need a clear communication programme which enforces a reframed approach to isolation, risk management and social behaviour. This Includes the rational segregation of high-risk people who need continued isolation, operating as follows:

- Isolation to be required for all people over the age 70 (with extra social support) and anyone suspected of having COVID-19 and awaiting test results.
- Isolation to be required for all people (and school children and teachers) with significant comorbidity conditions (particularly respiratory) who have been shown to be in high-risk conditions associated with coronavirus. There may need to be some 'conscientious objector' isolation provisions for teachers who feel uncomfortable returning to classrooms.

With this in place, businesses would be allowed back-to-work and workplace social distancing requirements could be made case-specific or generally slightly relaxed. A permanent reminder on washing hands and encouraging people to stay away from others (and absent from work) if they get a cold or flu would ne required.

Some lateral thinking might be needed, such as for workforce segments which do not have a current open workplace. Converting foreign students to online courses and making them resident back home would take pressure off local casual employment options.

Like the engineers who stayed in the Fukashima reactor to stabilise it, it may take a brave, isolated region of Australia to take the first step so epidemiologists can learn from this before a major city attempts a back-to-work strategy.

Bruce Gregor is a Demographer and Actuary, and Founder of Financial Demographics. This article is general information only and does not consider the circumstances of any investor.

Super needs more rethinking outside the box

Ramani Venkatramani

The COVID-19 pandemic, like the GFC before it, has forced the authorities to take actions unthinkable even for the most adventurous interventionists. Faced with an unseen predator able to jump across species and continents in our interconnected world, the varied global responses show the challenges in addressing its health, financial and social impact effectively.

Science – always imperfect and evolving – has few reliable pointers yet and many questions. Statistical approaches applied to large groups have little to reassure individuals exposed to the pandemic: the tyranny of averages.

The bold decisions announced by the Australian authorities splurging resources with rare multi-partisan support would be considered brave, indeed courageous in 'Yes, Minister' speak. But they are unavoidable.

What about some other super options

In super (our multi-trillion retirement savings vehicle propelled by compulsion and tax concessions and constrained by preservation), significant changes have been announced, including halving the minimum drawdown rates in pension phase, and allowing limited access up to $20,000 for those in dire need. The apparently opposite measures make sense, by reducing the pressure for fire-sales of assets locking in non-deductible capital losses, and by allowing strugglers to cope.

Retirement yonder only makes sense if the victimised savers survive till then.

As the Government has made it clear that the rapid-fire reforms are still work-in-progress, what more can or should be done?

It is useful to invoke the mantra super lawyers, regulators and consumer advocates intone all the time, 'the best interest of members', which can only be assessed with available incomplete information. By this definition, rushed super reform is not designed to benefit any other stakeholder including trustees, employers, service-providers, professional advisers or financial planners. They have all been caught up in the COVID-19 mess, but must do what it takes in members' interest.

Calming the public, restoring confidence in markets and adjusting to the physical, emotional and financial pressures would make the task less difficult.

Here are a few:

- To reduce the selling pressure, allow those with available cash in super to lock it in under preservation by relaxing concessional and non-concessional contribution limits – say double them with a minimum of $50,000 and $250,000 respectively per financial year. This would enable those currently unable (pensioners who have reached the transfer balance cap, those above age 75 etc) to contribute to their nest egg.
- Clarify that those who have already withdrawn more than the reduced minimum rates in 2019/20 can repay the excess if they are able. This would treat them on par with those who have not yet drawn more than the current minima, to preserve equity and fairness.
- Consider increasing the $1.6 million cap on pension balances given the extraordinary reduction in balances. This is despite the clear current rules which prevent topping up due to market falls (and symmetrically, having to reduce in a boom) and goes to the substance of confidence rather than literal compliance.
- Allow companies to distribute franking credits even without any dividends being paid. This is largely a book-keeping adjustment over time, but would increase confidence shaken by valuation losses, as more companies find they are unable to pay dividends and some funds are beset with illiquidity.
- Facilitate liquidity for funds forced to fire-sell to meet the improved access. Despite the haranguing about 'they should have seen it coming', nobody foresaw how a wet-market disaster in China would make the world wet their foundation garments. Hindsight is wonderful but not available at the ophthalmological dispensary. Silly to let the emergency measure to sink those caught up, especially if they have sensibly matched long-term liabilities with illiquid liabilities given increasing longevity. Hit by a crisis of confidence, illiquid assets freeze (as occurred during the GFC, and APRA was forced to reprieve funds unable to pay).
- Clarify super funds can access the small business grant of between $20,000 and $100,000 subject to the announced turnover limits. This is not the time to quibble if SMSFs can run a business (ATO says they can, subject to qualifications). The fact is like any other managed investment scheme, **they are a business in themselves buying and selling assets to make revenue and capital profits**. No amount of semantics could alter this reality. Note these funds constitute the engine-room which support many small businesses comprising outsourced service-providers as well as audit, accounting and actuarial professionals.

No doubt this is a laundry list, but we should debate the ideas as the outlook is decidedly uncertain.

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Beware timing of super contributions at age 66 and 67

Julie Steed

On 5 March 2020, the Government released draft legislation for consultation that intends to improve the flexibility to contribute to super for older Australians from 1 July 2020.

The changes were announced as part of the 2019 Federal Budget and were widely expected to be in place by 1 July 2020. However, given the tumultuous state of the Parliament, it is unclear whether the legislation will pass by 30 June 2020. On this basis, it is essential that individuals understand what the current law is and only act on the proposals **if the new law is actually passed.**

The draft legislation allows certain contributions without the need to meet the work test and for the age limit for spouse contributions to be increased. The second limb of the legislation seeks to amend tax laws to allow access to the three-year bring forward rules for making non-concessional contributions.

Eligibility to contribute

Currently only individuals under age 65 can contribute without needing to meet the work test. The work test requires that an individual is gainfully employed for at least 40 hours in 30 consecutive days in the financial year in which the contribution is made.

If the new regulations pass, from 1 July 2020, people age 65 and 66 would be able to make contributions without meeting the work test.

The types of contributions applicable to the proposal include:

- Salary sacrifice contributions
- Personal deductible contributions
- Personal non-concessional contributions
- Small business capital gains tax contributions

Currently spouse contributions can only be made for individuals from age 65 to 69 if the receiving spouse meets the work test. The measures also intend to increase the age at which spouse contributions can be made from age 69 to age 74. If the measures pass, from 1 July 2020 people aged 70 to 74 may be able to receive spouse contributions if they meet the work test.

Accessing the three-year bring forward

The measures intend to increase the age at which people can access the non-concessional three-year bring forward rules from 64 to 66. People aged 65 and 66 would be able to access the three-year bring forward rules subject to the existing total super balance threshold requirements.

For the 2019/20 financial year, only clients who were 64 on 1 July 2019 are eligible to access the three-year bring forward rules. Clients also need to have a total super balance at 30 June 2019 of less than $1.4 million to access the full $300,000 bring forward.

For individuals who turn 65 in the 2019/20 financial year and who have the capacity to contribute more than $300,000, it may be advantageous to put plans in place to contribute $100,000 in 2019/20, $100,000 in 2020/21 and then $300,000 in 2021/22 but **only** if the legislation passes. If the status quo remains, the maximum of $300,000 this year is all that should be considered.

Tax and super law interaction

The interaction between the super laws regarding the eligibility to contribute and the tax laws regarding eligibility for the three-year bring forward rule remain widely misunderstood. Tax law tells us that a person who was 64 on 1 July 2019 may contribute up to $300,000 in 2019/20 but super law tells us that if the contribution is made on or after our 65th birthday the work test must be met during 2019/20 – we must be gainfully employed for at least 40 hours in 30 consecutive days.

We regularly see people make contribution plans based on tax law, only to have them unravelled because they have not also considered super law and realised that they were ineligible to contribute.

Conclusion

The potential improvements in super contribution flexibility will be welcomed if they are legislated but individuals should ensure they are only acting on the proposed changes if they actually become law.

You can track the passage of the proposed measures here.

Julie Steed is Senior Technical Services Manager at Australian Executor Trustees. This article is in the nature of general information and does not consider the circumstances of any individual.

COVID-19: 'In the midst of death we are in life'

Donal Griffin

This virus has changed most of us already. We felt - not just thought or intellectually understood - we would die and that vulnerable people near us would die and that this could happen soon. For many people, mainly the older, it will happen this year.

Yet, apart from buying more than we needed in the supermarket, we did not act as if it might really happen. I have not heard any stories of people quitting their jobs or relationships and before restrictions on travel, flying to family or old lovers around the world. The things we said we would do if it was the end of the world remain on lists.

Have we missed a trick?

Instead, we worried about losing our jobs and spent time making sure our kids were sticking to the home-schooling timetable so that they could find decent jobs in years to come. We sent the message that it was business as usual, probably to remain calm and, as a civic gesture, to encourage others to stay calm too. We have stayed at home like good citizens.

But have we missed a trick here? Are we slaves to this civic-mindedness or, worse, the economy? If we thought this was the end of the world, for a lot of us, *Oasis' Champagne Supernova*, where were we when they were getting high? Washing our hands or wringing them?

Our self-absorption in Australia is fairly high. Living forever because of the weather and natural beauty of the place could be tempting. Long-haul flights to the rest of the world mean our holidays need to be longer anyway. Because we have so much, the thought of losing it hurts. Man is naturally neurotic, mainly because, alone among creatures, we are aware that we are going to die. But if we do not respect this fundamental truth, we make ourselves sick.

Becker wrote in *The Denial of Death*, "*there is just no way for the living creature to avoid life and death, and it is probably poetic justice that if he tries too hard to do so he destroys himself*".

Making the most of the trip

I work as a lawyer with families. We plan for the worst but hope for the best on a daily basis. My happiest clients are those who dodged a bullet by either divorcing someone they did not want to be with or surviving a near-death experience. If we survive, and most of us will, COVID-19 gives us all the opportunity to be this happy.

I am facing up to my death. I don't expect to get a prize for this but I hope to avoid the folly of enjoying the trip for the wrong reasons. Not only should we be able to talk about death but to do so helps others and shows empathy, wit and, relative to those who dare not mention it, bravery.

The authority on this, Dr Elizabeth Kübler-Ross in *On Death and Dying,* found that, "*the more we are making advancements in science, the more we seem to fear and deny the reality of death.*" By trying to ignore it we are missing out on a unifying social truth. Misery loves company but death insists on it. Like the disgraced HIH businessman Ray Williams, who used to book a second business class seat for his briefcase, death does not travel alone.

The artist Damien Hirst has a very expensive sculpture called *The Physical Impossibility of Death in the Mind of Someone Living*. The Australian comedian Sam Simmons put it more economically when he told an audience that he did not want to die but would not mind being dead for a while. If we are hibernating now, we should come out rested and with better energy.

I am lucky I am Irish. Death is a national obsession so we can digest and process this more easily. For my generation, it is all Yeats' fault. In a poem we were made to learn off by heart in primary school, Yeats cried, "*Consume my heart away, sick with desire And fastened to a dying animal*". I have collected some of these quotes on life and death by Irish writers who are our philosophers. Irish political heroes were martyrs and we learned graveyard orations in school. We are not ones for bucket lists. We know there is a hole in the bucket.

But didn't we all learn about it at school when we grew watercress (or whatever lucky plant you were encouraged to grow) and learned about photosynthesis and neglect? No one told us about the dying process but nature taught us, sometimes only a day or two later.

Saul Bellow said "*death is the dark backing a mirror needs if we are to see anything*". The bitter truth is that you and me and everyone we know is going to die and the sooner we face up to that the better. I might say, "I know I am going to die" but do I really accept it? For those of us locked into thinking like an economy not a society, supply and demand rules mean life is even more precious, right?

The lucky among us, who survive COVID-19, can take it as a near-death experience and lead lives more focussed on what we, not the government, think is important. This is our opportunity and now is the time to grasp it before complacency creeps back in.

What kind of a life do you really want to lead?

By your actions, what do you want to tell others that you chose to do from all of your options?

There are already wonderful examples of people helping others, expressing thanks to those on the frontline. The best of people comes undemanded by the government. We do not have to be told. Why shouldn't we continue this long after this pandemic? It took many deaths for us to live the lives we want. We see that we are all in this together. We should wash our hands because we think it is the right thing to do, not because we are told to and it is a part of an economic plan.

Mourning his father, James Joyce said, "*Life is so tragic — birth, death, departure, sickness, death — that we are permitted to distract ourselves and forget a little*". A little distraction is a good thing but we need to see the big picture.

At my work, I tell people the legal facts about a death in a family, listen to their hopes and help them to leave the legacy they want. I prepare, if I do say so, beautiful legalistic documents but the most important thing my clients should do, I tell them, is to write a practical and philosophical 'user's manual' for their young children and a love letter to their older family and friends. This will help them to live forever. It took an embarrassingly long time for me to realise that I should do the same.

In the book that gave me the idea for the title of my own book[1], *The Tibetan Book of Living and Dying*, Sogyal Rinpoche points out two certainties; "*It is absolutely certain that we will die, and it is uncertain when or how we will die".*

But, as Cormac McCarthy, himself influenced by Yeats and no stranger to an Irish background, said "*just because one is a pessimist doesn't mean one has to be miserable about it"*. For now, we are still here!

Donal Griffin is the Principal of Legacy Law, a Sydney-based legal firm specialising in protecting family assets. The firm is not licensed to give financial advice.

[1] This essay was drawn from a book the writer is finishing called The Irish Book of Living and Dying, Volume 1. The title of this article is said by Leopold Bloom, the fictional protagonist and hero in James Joyce's Ulysses.