Firstlinks

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Editorial

There are many ways to value a company, but the most popular is to estimate the future cash flows and discount them by a chosen interest rate. The lower the interest rate, the higher the net present value. So does it follow that when interest rates are as low as they are at the moment, companies become more valuable? Perhaps, but only if the cash flows remain unchanged, and in a recession, future earnings are more difficult to sustain.

This is the dilemma facing every investment analyst, as lowering the discount rate in line with a company's cost of capital can lead to extremely high valuations. Consider what **Warren Buffett** said in 1994:

"The value of every business, the value of a farm, the value of an apartment house, the value of any economic asset, is 100% sensitive to interest rates because all you are doing in investing is transferring some money to somebody now in exchange for what you expect the stream of money to be, to come in over a period of time, and the higher interest rates are the less that present value is going to be."

Hamish Douglass of **Magellan** says interest rates should be part of any discussion about stock market values:

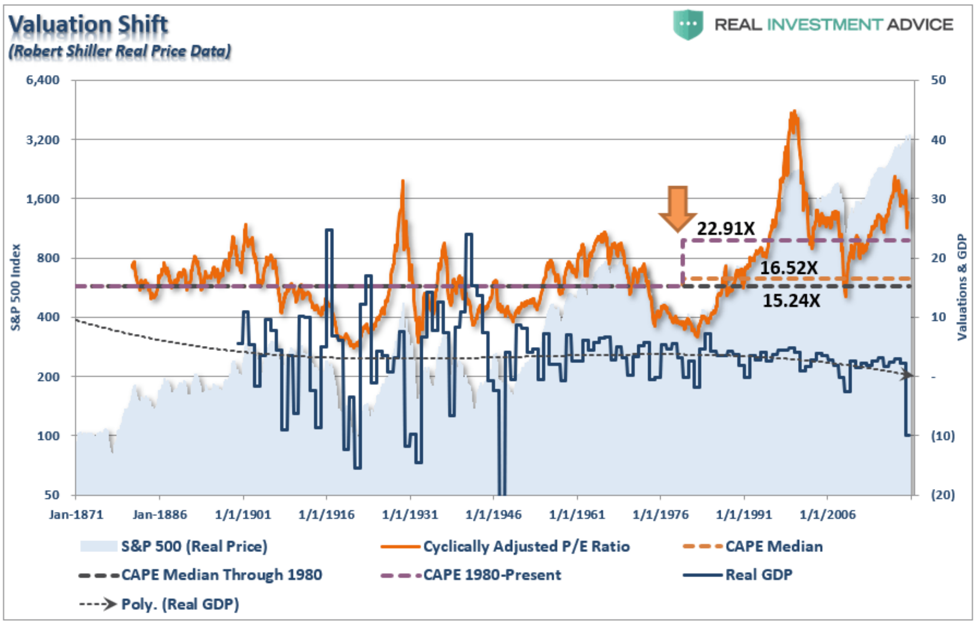
"It is concerning that there is so much commentary opining on whether or not share markets are under- or overvalued without any discussion about the likely level of future interest rates. We can confidently predict that many stock markets are presently overvalued if future long-term interest rates are 5% or greater and also predict that they are attractively valued if long-term interest rates are 3% or less in the future."

Where does this leave us in current markets? We always find a way to justify expensive markets, and low interest rates is a popular reason. We also blame central bank printing and '**Robinhood**' investors, the new retail players bidding up stocks in a game of chance. The reality is shown below.

The long-term median CAPE (**Shiller**'s Cyclically Adjusted P/E ratio) from 1871 to now is about 16 (and since 1980 about 23) and at the same time, real GDP (the blue line at the bottom) has increased a median 3.3% per annum.

But the CAPE is now at an elevated 31 despite real GDP falling heavily due to COVID-19. When economic growth is low, company valuations trend down in the future. **Ed Easterling**, founder of Crestmont Research and author of many books on market valuations, covers this subject well. It remains to be seen whether ultra low interest rates and ultra high central bank stimulus can hold equity markets at levels that economic growth and corporate profits do not justify.

In Australia, GDP growth has remained strong in the last 30 years driven by population growth primarily due to immigration. In an ominous confirmation of what we all know, the latest ABS numbers show a 99% decrease in overseas arrivals in August 2020 versus a year ago. **Martin Conlon**'s article this week argues the disconnect between stock prices and economic reality has become a giant **Ponzi** scheme in a casino-like market.



Also in this week's packed edition ...

The $50 billion **Listed Investment Companies** (LICs) and **Trusts** (LITs) segment of the Australian market is struggling to find the right business model. Most trade at a discount to asset values, and a new primary deal has not been completed in 2020. We check the ways fund managers are addressing the problem with new structures, and investors should agitate for more LICs to do the same.

In our Interview Series, we meet **Jordan Eliseo** of **Perth Mint**, which is experiencing massive growth in demand for physical gold and gold ETFs, including from SMSFs and institutions. Here's all you need to know about gold.

Last week's survey drew hundreds of responses, and **Leisa Bell** has collated the fascinating results into different articles. As always, it's the comments which are most revealing. See what readers think of the early release of super (hint: **Not Happy Jan**), the severity of the Victorian lockdown (hint: **Not Happy Dan**), who will win the US election (hint: lots of support for **Trump**), forecasts for stock markets (hint: better times ahead). More results next week.

The survey also confirmed half our readers are trustees of SMSFs, and we must not overlook the administrative tasks of the role. There are particular obligations during the pandemic, such as documenting if you took a lower pension in FY20. **Nicholas Ali** provides a quick checklist to ensure your SMSF remains compliant.

Andrew Wilson outlines a difference between managing retirement income using an SMSF versus a pooled fund, drawing out implications of selling fund units in a down market.

And amid the billions of dollars that the Federal Government is throwing at the pandemic to support the economy, **Ashley Owen** asks whether we can afford it.

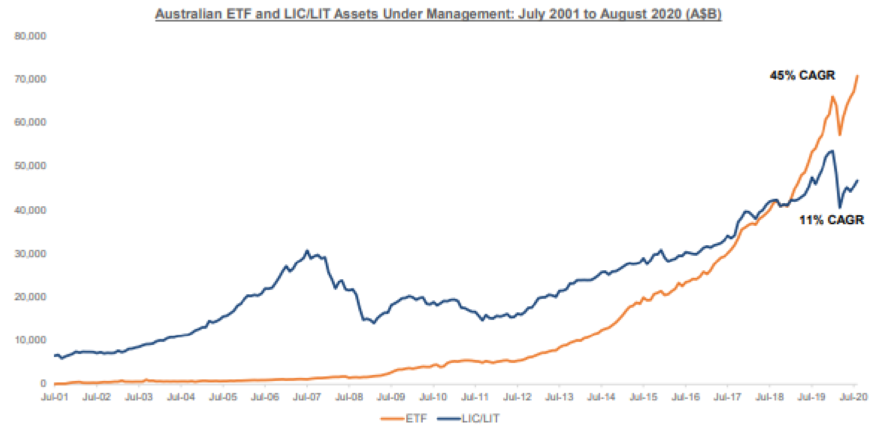
This week's White Paper from **Fidelity International** explores longer-term implications of work and business due to the virus, including a move to greater collaboration and decentralisation by companies.

Who's next? Discounts on LICs force managers to pivot

Graham Hand

History will record that the few years until 2019 were halcyon days for Listed Investment Companies (LICs) and Listed Investment Trusts (LITs). It will never be as good using the traditional 'closed-end' structures. A record amount of over $4 billion was invested in new issues during 2019, up from $3.3 billion the previous year. Fixed interest LITs alone raised $2.2 billion in four issues in 2019, with the largest by KKR (ASX:KKC) achieving an incredible $925 million in only a few weeks.

The main listed competitor for the LIC/LIT structure is Exchange Traded Funds (ETFs). While LICs/LITs have failed to launch any primary transactions in 2020, ETFs have gone from strength to strength, reaching a record $70 billion in August, a lead of $25 billion over their rivals. As recently as January 2019, LICs/LITs were larger, as shown below.



Source: BetaShares, ASX, Chi-X

What has hit LICs/LITs?

Two factors are undermining demand for LICs/LITs.

1. Ban on stamping fees

A significant amount of demand was driven by stamping fees paid to brokers and advisers. Firstlinks has already covered this subject in detail, including here and here. For example, the KKR offer documents in 2019 stated:

"the Manager will pay to each Broker a selling fee of 1.25% (exclusive of GST) of the amount equal to the total number of Units for which the relevant Broker procured valid Applications."

Brokers often shared the fees with advisers. On 20 May 2020, the Treasurer announced the results of an investigation which had started on 27 January 2020. It concluded:

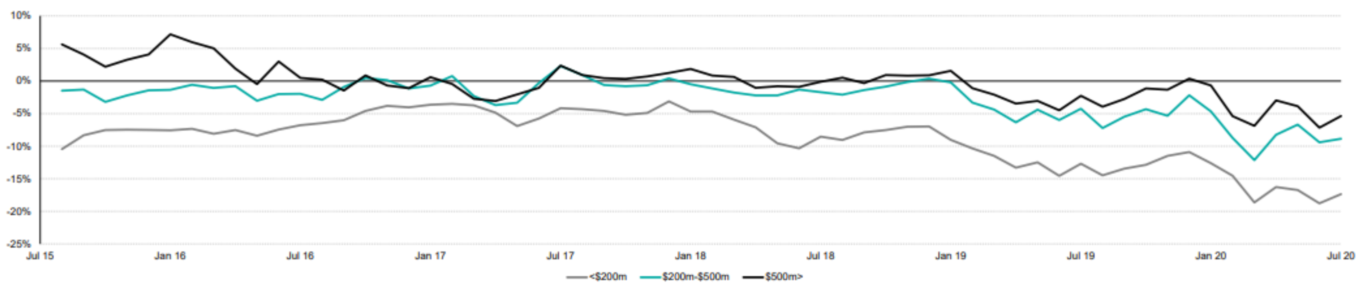
"Extending the ban on conflicted remuneration to LICs will address risks associated with the potential mis-selling of these products to retail consumers."

2. Consistent trading at a discount to Net Tangible Assets

Investors have tired of the inability to exit from most LICs/LITs at the value of Net Tangible Assets, or NTA. At the time when liquidity was most needed during the March 2020 COVID-19 sell-off, with no mechanism to create buying interest in a closed-end fund, prices collapsed, as described here.

Despite the subsequent stock market recovery, discounts remain and much damage is done. Some of the highest-profile managers in the market are overlooked by investors despite their reputations.

LIC/LIT premiums/discounts to NTA based on market capitalisation



Source: IRESS, Company Data, Bell Potter Estimates

Six LICs turn to radical solutions

Such is the severity of the problem that new announcements are now made every week by LICs/LITs attempting to address the discount problem. For the directors of many of these listed vehicles, most board time is spent on addressing and then implementing solutions, including:

1. Ellerston Global (previously ASX:EGI)

The best example of the extraordinary effort, cost and time expended to fix the discount frustration is Ellerston Global and its conversion into unlisted units in the Ellerston Global Mid Cap Fund. The Explanatory Booklet is 402 pages which nobody will read in full except the lawyer who drafted it.

Ellerston deserves praise for addressing the discount problem using a fund which will face redemptions. However, where previously investors held a listed vehicle which could be bought and sold easily on the exchange, they are now converted to an unlisted trust with tiresome paperwork of new application forms and identifications.

The holders of EGI do not simply receive units in the new fund, but a 24-page Information Form must be completed, and:

"You will not receive your Units in the Ellerston Fund under the Scheme unless and until you complete this Form (including all supporting documents)."

Ellerston undertook this process for a good reason, to address the structural weakness of LICs when too few buyers are in the market. The Scheme offers:

"The elimination of the persistent discount to NTA at which EGI Shares have traded on ASX since EGI's listing on ASX in October 2014. Although the portfolio performance has been strong, EGI Shares have persistently traded at a discount to EGI's NTA. The price of Units in the Fund is expected to reflect more closely the underlying performance of the Fund Portfolio."

There is an ironic footnote to the LIC which has taken Ellerston most of 2020 to unwind. Their website continues to espouse the benefits of the structure they have just rejected. It says:

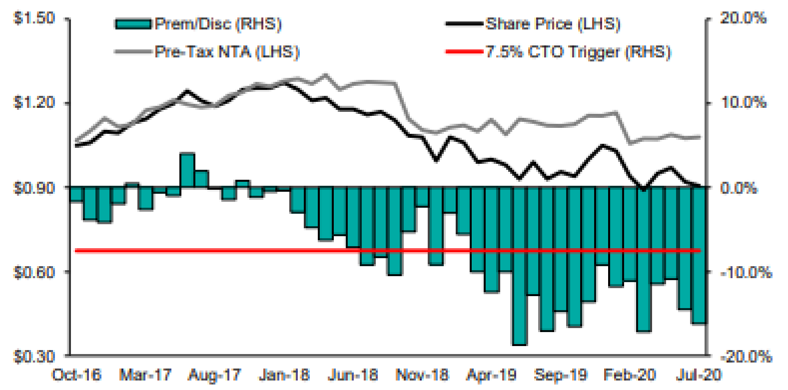
"Listed Investment Companies (LICs) are a viable and well-established alternative to the managed fund and in fact have some considerable advantages when compared to managed funds."

Perhaps it's because they continue to offer Ellerston Asian Investments (ASX:EAI) in listed form.

2. Antipodes Global (ASX:APL)

Antipodes should have all the right ingredients for a listed vehicle to trade well. It was established by Jacob Mitchell in 2015 after 14 years at Platinum Asset management as Deputy Chief Investment Officer to Kerr Nielson. The fund manager had a successful start and manages an impressive $8 billion, yet its LIC has traded at a discount as high as 20%, as shown in the green bars below. In the first two years, it was keenly sought and even traded at a premium, but investors have fallen out of love with APL.

APL premium/discount since listing



SOURCE: COMPANY REPORTS, IRESS, BELL POTTER RESEARCH.

After buying back 13% of the company's shares at an average discount to NTA of over 14% without moving the needle, a more drastic step was needed. The board is offering a 'discount control mechanism' under a tender programme with the following features:

- Shareholders will have the opportunity to tender their shares for sale to the company via an off-market buyback.
- The maximum number of shares the company can buy back will be 25% of the shares on issue at that time.
- The tender offer price will be NTA less 2% as calculated on or around the closure of the offer period.
- The offer will take place if the company's closing share price exceeds a 7.5% discount to pre-tax NTA.
- The board will make the offer regularly in future, aiming for every three years.

This is similar to a structure used by Ironbark Capital (ASX:IBC) to doubtful success, as it is currently trading at 44 cents versus an NTA of 51 cents. The downside is that a smaller company must spread its fixed costs over fewer assets, potentially increasing its management expense ratio.

Nevertheless, APL is attempting to remove the discount which must be an embarrassment to someone like Jacob Mitchell, and these repurchase practices have worked in other countries.

3. Blue Sky Alternatives Access Fund (ASX:BAF)

Geoff Wilson's Wilson Asset Management (WAM) is a long-time market leader in promoting the merits of LICs. Some of their funds, such as WAM Capital, trade at a premium to NTA, and their shareholder engagement is strong. Wilson has a history of acquiring underperforming LICs and bringing them into his stable. WAM Capital (ASX:WAM) currently has an offer in the market to acquire the Concentrated Leaders Fund (ASX:CLF), and an independent board committee has been established by CLF to consider the offer.

Wilson has recently taken over the management of BAF, creating WAM Alternative Assets to complement his other funds such as Microcap and Global. BAF has struggled at a hefty discount to NTA of around 30% under previous management, and Wilson will now seek to address it.

What is different from the other times Wilson has taken over a LIC is a mechanism, called a Premium Target, which potentially terminates WAM as manager and liquidates the company if Wilson is unsuccessful, as follows:

" ... we have agreed to deliver on the Premium Target, a first of its kind in the Australian market. The principle of the Premium Target is simple: the Company's share price needs to trade at a premium to its pre-tax NTA for a period of one month for it to be achieved. If this does not occur at least three times during the next five years, shareholders will automatically have the right to vote to terminate the arrangements with Wilson Asset Management, and to liquidate the Company."

At the time of writing, BAF was trading at 87 cents on an NTA of $1.08, despite a heavy buyback programme, including:

"During the month, the Alternatives Fund acquired an additional 252,706 shares at an average price of $0.76159 representing a 30% discount to August's pre-tax NTA."

Boards often embark on these buybacks to show investors they are doing something tangible, but they rarely work in Australia on a sustained basis.

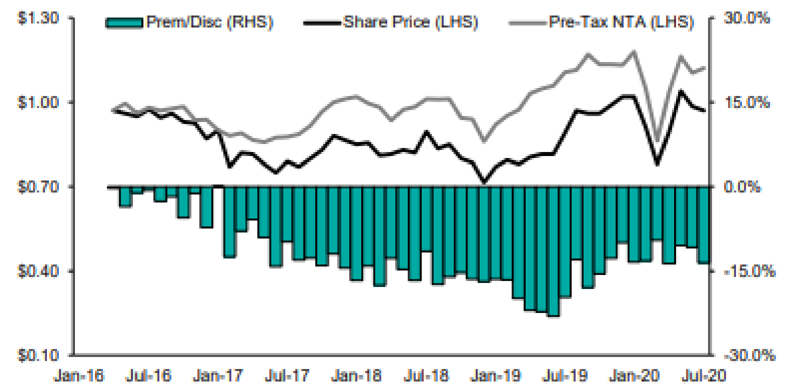
Although there have been no LIC/LIT primary issues in 2020, WAM continues to raise money on existing LICs, such as the $88 million added to WAM Microcap in a recent Share Purchase Plan supported by 55% of shareholders.

4. Monash Absolute Investment Company (ASX:MA1)

Monash recently won 'Best Listed Alternative Investment Product' at the Australian Alternative Investment Awards 2020. When a fund which regularly trades at a 15% to 20% discount wins an award, there is not much recognition of the LIC discount problem. Despite its solid investment performance under well-known manager Simon Shields, at the time of writing, it trades at $1.07 against a pre-tax NTA of $1.23, and has been at a heavy discount for years.

The board is proposing to restructure MA1 into an Exchange Traded Managed Fund (ETMF) which allows units to be issued or redeemed at close to the NTA. It will become yet another company removed from the traditional closed-end LIC world.

Monash (MA1) premium/discount to NTA



SOURCE: COMPANY REPORTS, IRESS, BELL POTTER RESEARCH.

5. Absolute Equity Performance Fund (ASX:AEG)

AEG has delivered excellent recent performance after a poor start as a listed company. It lost some support in 2016 and its shares traded at solid discounts to NTA. In 2019 and 2020, investors have shown more interest in this absolute return 'pairs' strategy, and here is the pre-tax NTA since inception:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	6.68%	1.23%	-4.44%	1.21%	0.34%	4.31%	4.80%	8.83%					**24.69%**
2019	-3.51%	-0.84%	-0.90%	0.52%	-2.53%	3.04%	6.99%	-2.29%	0.56%	8.50%	2.88%	2.31%	**14.94%**
2018	1.27%	-0.15%	0.76%	1.98%	4.75%	0.08%	-3.67	10.22%	-3.87%	-6.90%	-3.16%	2.05%	**2.29%**
2017	4.91%	2.06%	0.17%	5.83%	2.80%	1.15%	-1.28%	-6.62%	3.61%	5.26%	-1.58%	2.93%	**20.19%**
2016	-0.23%	2.28%	-7.20%	-2.89%	8.53%	-0.92%	1.38%	-5.90%	-1.06%	-1.73%	-2.32%	-3.31%	**-13.39%**
2015	-	-	-	-	-	-	-	-	-	-	-	2.25%	**2.25%**

*Before tax. These calculations are unaudited and intended to illustrate the performance of the investment portfolio minus corporate expenses. They are calculated on a pre-dividend NTA basis.

Shares have traded closer to NTA in recent months, but in July 2020, the board announced to the ASX that:

"The Board … has received a non-binding proposal (Proposal) from its investment manager, Bennelong Long Short Equity Management Pty Ltd (BLESM). In summary, the Proposal details an amalgamation of AEG and an unlisted managed investment scheme, Bennelong Market Neutral Fund (BMN). BLESM is the investment manager of BMN. BLESM indicates the Proposal is designed to eliminate the share price discount due to the difference between AEG's net tangible asset position and its current share price, and improving liquidity. As part of the Proposal, AEG shareholders would receive units in BMN and ultimately AEG would be would up."

It's another LIC facing delisting as discussions continue.

(Disclosure: Until a year ago, I was on the board of this company. All the information in this article comes from public announcements).

6. Contango Income Generator (ASX:CIE)

Perhaps the most unusual of all the solutions to poor trading levels comes from CIE, which intends to change fundamentally how it manages money. The Managing Director of Contango is Marty Switzer, son of Peter. Established in August 2015 as an income-focused, ex-top 20 Australian equity fund paying franked dividends, it lost -19.5% in the 12 months to 31 July 2020. It is now proposing to adopt a global equity strategy by switching the money into the WCM Quality Global Growth Long Short Strategy, subject to shareholder approval.

Again, the discount to NTA is the culprit, and the company announced:

"One of the key reasons for the independent non-executive Directors unanimously recommending the new investment strategy was the potential to address the share price discount to net tangible assets ("NTA") by increasing liquidity, growing the size of the Company and improving the investment performance. In addition, the Board of the Company assures shareholders that, in order to achieve this objective, it will actively consider appropriate capital management tools to reduce the share price discount to NTA."

What makes this move even more interesting is that two of Australia's highest profile investors, Peter Switzer and Geoff Wilson again, are involved in the battle for control. Switzer's group distributes WCM funds in Australia, while Wilson has requisitioned that WAM take control of the board and become the new investment manager. The argument has turned combative with Switzer questioning why Wilson does not report the performance of his funds after fees, and Wilson saying the WCM terms are unfavourable. Complicating matters is the fact that WCM's existing LIC (ASX:WQM) itself trades at an average discount to NTA of about 15%.

The problem for investors bemused by the stoush is that if they want to sell out of CIE, they must accept a hefty discount.

Shareholders should demand more changes

Some of the old-fashioned LICs, such as Australian Foundation Investment (ASX:AFI) with $7.6 billion and Argo Investments (ASX:ARG) with $5.4 billion, have a long history of trading around NTA, sometimes at a premium, with low fees. Among the 100+ LICs/LITs on issue, the structure can work in the right circumstances.

However, many of the LICs issued in recent years are small or not well supported and were sold to investors by brokers and advisers with the hope that the market would deliver decent liquidity. There was little follow-through demand as participants moved on to the next hot deal, sometimes even selling the existing issue to make way for the new glamour stock and its fee. Fund managers and their boards hang on, safe in the knowledge that long-term management contracts are in place, offering buybacks as a salve to shareholder concern.

The boards and managers adopting solutions, including Magellan's dual listed/unlisted structure, deserve recognition for giving investors a better opportunity to realise their asset values.

When LICs and LITs trade at persistent discounts for years, shareholders should become more active in attending annual meetings and writing to boards, prompting actions such as:

1. Convert to an open-ended ETF which allows cancellation or creation of shares at NTA.
2. Adopt a timetable where investors are given an exit facility at NTA, perhaps annually or at least every three years.
3. Delist into an equivalent unlisted fund with a redemption option, although investor paperwork is cumbersome.
4. Adopt the dual structure of unlisted managed fund and listed ETF.

Investors have tolerated complacency on many LICs for years and there are now market mechanisms showing how to address the problems.

Graham Hand in Managing Editor of Firstlinks, and he holds investments in some of the securities mentioned. This article is general information and does not consider the circumstances of any investor.

Interview Series: Why it's gold's time to shine

Graham Hand

Jordan Eliseo is Senior Investments Manager and Head of Listed Products and Investment Research at Perth Mint, with over 20 years of experience in financial services. Owned by the Government of Western Australia and operating under an explicit government guarantee, Perth Mint distributes about $18 billion of precious metal products annually. Its gold Exchange Traded Fund (ETF) on the ASX uses the code PMGOLD.

GH: Many investors are looking for gold exposure, but how should they choose between the three alternatives of investing in physical gold, a gold ETF or shares in a gold miner?

JE: There are pros and cons to each. The easiest to separate from the others is the gold versus gold miner debate. It's a fundamentally different risk-return profile. While there are times in the cycle where well-run gold mining companies can be profitable investments, they're typically more volatile and higher risk because there are more factors in play. What's the size of their reserves? What's the grade? Do the locations of their mines give country risk and do they hedge production?

GH: And like any other company, the quality of the management.

JE: Yes, another reason why investors tend to allocate gold miners to part of the equity component of their portfolio. The 'bar or coin' decision versus an ETF comes down to whether the investor places some value on the physical nature of gold, holding that wealth in their hands and storing an asset almost outside of the financial system. Some in the investment community want that and are happy to pay a premium. They sacrifice a bit of liquidity storing gold in a private vault or at home as it cannot be sold simply on an exchange or back to a bullion dealer. If the investor really wants exposure to the gold price in a portfolio, then typically they gravitate towards an ETF, especially if they're already buying shares. It's easy to add to a portfolio alongside the rest of the shares or ETFs they own.

GH: When you say a gold bar comes with a premium, what are the costs involved?

JE: It's the storage and insurance and security of taking care of physical gold. From the refinery's or mint's perspective, fabrication costs go into making a bar or a coin. The larger the bar, the premium as a percentage will be lower than buying a very small bar or coin. However, investors go into a pool when buying an ETF and the spread is lower. For example, $100,000 into a gold ETF might include a buy/sell spread of 10 to 20 basis points (0.1% to 0.2%) but if you put $100,000 into one-ounce coins or bars, the premium might be 1% to 1.75% for a cast bar or minted bar, or 4 to 5% for a coin to cover costs.

GH: You've been closely involved in the gold industry for many years, including when interest rates were higher than they are now. Some people criticise gold saying it's not an asset because it doesn't produce any income. Do you find this criticism of gold is less common now that many bonds don't produce much income?

JE: Yes but it's not just the fact that there's no real income on bonds or term deposits. Gold is actually performing. If gold were falling in price, then earning nothing on a term deposit is better than earning negative on gold. And history backs this up the performance of gold in this interest rate environment. In the past, when real interest rates have been 2% or lower, gold has delivered about 20% per annum in nominal terms.

Why is that? One, the opportunity cost is low, but two, the reason interest rates are low is because the economy is struggling which over the cycle constrains company earnings. It makes sense that gold would outperform in this environment. And three, we should factor in the inflation argument. Interest rates could rise from here but if rates go up 1% and inflation goes up 2%, real rates have actually gone even lower.

GH: Do you think investors looking at an allocation into gold go through the same process as they might with other asset classes, such as 30% to Australian equities, 30% to global equities, 20% to bonds. So let's do 10% to gold. Is it thought of as an asset in that way?

JE: Increasingly, we see that, especially as SMSF trustees, financial planners and institutions allocate to gold. It's a nuanced asset allocation conversation on the role that gold can play in a well-diversified portfolio. In the past, gold was more an 'all-or-nothing' thing. But it's more sophisticated now and investors are asking about the pros and cons of this asset class. Many advisers now say 5% to 10% makes sense.

GH: As a permanent, long-term allocation, not only due to current conditions and low rates?

JE: My view is that every asset class has at least one negative attribute. There's no perfect asset class. In gold's case, the lack of income is less than ideal but it's always liquid and physical gold has zero credit risk. Its long-term returns stack up and it tends to outperform when rates are low or when equity markets are volatile. Those are the positives that make sense of an allocation.

GH: Are all gold ETFs essentially the same?

JE: It's a big subject and maybe we can cover in more depth another time, but here are three things to watch. One, who is the issuer? Two, what is the management fee? As gold is a purely passive asset class and the ETF tracks the price, any fees cut into investor returns. And three, what is the liquidity of the product?

GH: I was surprised to read how much Perth Mint is part of the production process of gold in Australia and how much goes through your refinery - including all those tiny nuggets dug up by individual prospectors plus the massive production by major gold miners.

JE: Yes, but to be clear, we don't mine directly, we have relationships with miners, and small prospectors usually go through a local aggregator. The vast majority of the gold we refine is sourced within Australia, which is the second or third largest gold miner in the world in terms of tonnage of production, currently in excess of 300 tonnes which is about 10% of world output. We do source from other countries but that's typically gold mined by an ASX-listed company. Perth Mint is the largest refiner of newly-mined gold in the world and we process the vast majority of Australia's production.

GH: What about the collectible coin market. Is that an investment?

JE: It's a good business but a small component of the overall gold market. In the 2019 financial year, our total turnover was $18 billion and coins, medallions and minted products were about $1 billion of that. So about 5% of our market. Collectible coins are a subset of that $1 billion. There's the gold content and the gold value or silver value of those products so it's a niche market with other things such as theme, innovation and uniqueness driving that market rather than the precious metal price alone. So for the vast majority of investors that want gold in their portfolio, they will buy bars or an ETF.

GH: Where does silver fit in?

JE: Perth Mint is a major refiner of silver and we have depository accounts that allow people to buy silver and store it with us. We manufacture silver bars and silver coins. Most people's first interaction with precious metals is gold, as it has more 'brand name' recognition and everyone implicitly knows gold is valuable. The role of gold in a portfolio is clearer, such as the correlation with equity markets and 'risk off' investing. Large investors who want to invest in precious metals will tend to stick to gold.

GH: Flows into gold ETFs have been strong in the last year. Besides the simple reason that the price is rising, how much comes from the currency debasement argument, massive amounts of government debt undermining 'fiat' currencies?

JE: To give some context, in the first six months of 2020, about 700 tonnes of gold went into gold ETFs globally. That was more than in any previous whole year. When you also consider the value of that gold, it's about US$40 billion in six months into ETFs. The previous entire year was around US$22 billion, so the numbers are running at four times the previous record.

What does that tell us? The old school gold investor that is worried about fiat currency devaluation wants money out of the financial system. They don't buy ETFs, they buy physical gold. The gold ETF flows represent a huge number of new entrants into the gold market that want the price and defensive exposure in their portfolio. In our listed product, PMGOLD, over the last 18 months, the number of investors on the registry has quintupled, including a lot of small holdings. I think the QE and now MMT story are part of the move to gold but it's highly nuanced, especially when billions of government bond yields are negative. What are the safe havens when equity markets are expensive?

GH: When you said earlier that institutions tend to go 'direct', does that mean physical gold?

JE: Correct. Physical gold which they store with a custodian like The Perth Mint depository. In the last six to 12 months, we saw a lot more inquiries from regulated entities such as large super funds, and also family offices. It's more cost efficient to go direct in large quantities. They only have one counterparty to deal with whereas an ETF will typically have four or more counterparties (the product issuer, the trustee, the gold custodian and the market makers). And they get legal title to the gold. With an ETF, you don't own the actual gold, you own a security that is backed by gold. With physical gold, it has a serial number that is assigned to the investor. Gold ETFs are popular because they've made gold more cost effective for retail investors.

GH: So if a large institutional puts $200 million into physical gold, do the gold bars sit in a vault in Perth with unique numbers on them that the buyer can inspect?

JE: Yes, we have the largest vaulting facilities in the southern hemisphere and after 120 years in business, we store about $7 billion worth of gold for clients ranging from central banks to sovereign wealth funds to mum and dad investors. Yes, absolutely, legal title to their own physical gold in a government-guaranteed vault. And yes, the investor can inspect the physical gold directly.

GH: Why is it government guaranteed?

JE: Perth Mint is owned by the Western Australian Government and it stands behind the liabilities that we have to depositors. Any investor in a Perth Mint product is protected by that.

GH: And what about SMSF demand?

JE: There's been incredible flows the last 12 to 18 months. COVID accelerated a trend that was already in place. It really started in Q4 2018 which saw a huge decline in equity markets on talk of Fed tightening and gold started to take off. Our ETF has quadrupled in size in the last two years.

GH: Last question. What could cause a bear market for gold?

JE: If the US dollar were to rise significantly, or if real interest rates were to rise, that might put downward pressure on gold. It would increase the opportunity cost of holding gold if investors could get 5% on US Treasuries and inflation stayed at 1%. And if we had genuine, rip-roaring bull market in equities due to corporate earnings and not just central bank liquidity, money might move out of gold.

Those are three factors that could drive gold lower. In reality, I expect low real yields for years to come, and equities are not cheap. The rationale behind investors wanting to own a hedge such as gold remains strong.

Graham Hand is Managing Editor of Firstlinks. Jordan Eliseo is Senior Investments Manager at The Perth Mint, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

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SMSFs during COVID-19 and your 14-point checklist

Nicholas Ali

Every SMSF trustee should take the time to review the fund's status as an assessment of its compliance as well as its overall health. The annual audit is like a medical check-up of your fund, especially given the unique challenges COVID-19 brings.

To make life a little easier, here's a 14-point checklist to start you on your way.

1. Check the trust deed

Check the trust deed to ensure it is properly executed and ensure the trusteeship and membership align. When a company is trustee, all members must be directors (the principle exception is single-member funds). With individual trustees, all must be members of the fund (again, single-member funds are the main exception).

2. Review the fund's investment strategy

Check if the fund's investment strategy is fit for purpose, especailly given the recent (and probably continuing) market volatility. Don't only look at the fund's Strategic Asset Allocation (its long term 'benchmark' risk/return nexus). Consider the fund's ability to take short-term positions away from the benchmark.

3. Documentation due to COVID-19 early access to super

This is the $10,000 tax-free lump sum payable to fund members who have been adversely impacted by COVID-19 (or $20,000 if utilied twice). It is a self-assessed lump sum, but make sure you are eligible for the payment, as the ATO will police this scheme and penalties apply to those who abuse it.

Documentation that shows a loss of employment or a reduction in earnings will be important for the auditor to verify accessibility to the scheme.

4. Make sure the assets are registered in the correct name

We are often asked, "What about a term deposit commencing when the fund had individual trustees? Now we've changed to a corporate trustee, the financial institution says the ownership of the term deposit will change if the investment is registered in the name of the new company, and accrued interest will be lost. What will the auditor think about this?"

In these situations, a Declaration of Trust may need to be signed by the trustee to satisfy the auditor, stating the term deposit is not registered in the name of the trustee.

5. Record assets at market value

Assets must be recorded at market value and it's up to the trustees to provide the valuation. Market valuations are important for:

- Determining pension payments for the year
- Determining the level of in-house assets
- Payment of lump sums (member accounts need to be valued before a lump sum can be paid)
- Other scenarios, such as estate planning and retirement decisions.

The ATO has published helpful guidelines on valuation of assets.

6. Limited Recourse Borrowing Arrangements (LRBAs)

An SMSF can borrow to invest in assets under strict conditions, usually for property. For example, the property must be held in the name of the holding trust trustee, not the SMSF trustee. Not also that:

- The impact of COVID-19 on rental incomes, contributions by members or other fund income may affect the SMSF's ability to make loan repayments.
- If a commercial lender has provided a loan deferral, document it to ensure the auditor understands why loan repayments are not being made. Where the lender is a related party, loan deferrals must mirror commercial practices and be undertaken on an arm's length basis.
- Ensure the actual amendment to loan terms is documented and retained for audit and other purposes.

7. Related party transactions must be at arm's length

Acquisition prices of assets, such as transfers of shares or property, must be at market value, otherwise Non-Arm's Length Income (NALI) provisions may apply. These provisions ensure assets not acquired at market value will be subject to tax on income and any future realised capital gains at the top marginal tax rate, irrespective of whether the fund is in pension mode. The ATO is also targeting non-arm's length expenses, where a related party provides a service to their SMSF and does not charge the fund a commercial rate regarding the expense.

8. In-house assets no more than 5% of overall assets

An in-house asset, in general terms, is:

- A loan to, or an investment in, a related party of the fund
- An investment in a related trust of the fund
- An asset of the fund subject to a lease or lease arrangement between the trustee of the fund and a related party of the fund.

In-house assets cannot be more than 5% of the fund's total assets and are measured on 30 June each year.

Ordinarily, the trustees would need to put in place a rectification plan to bring the in-house asset back to within the 5% limit by 30 June 2021. COVID-19 may mean funds with in-house assets breach the limit, so the ATO has stated they may not take any compliance action if the rectification plan is not executed by 30 June 2021. The plan would still need to be in place, however, and this is something the auditor is going to want to see.

9. Check the contribution restrictions

The types of contributions your SMSF can accept are restricted by several factors:

- The age and employment status of the member
- The amount of contributions, known as the contributions cap
- The member's Total Superannuation Balance on 30 June of the previous financial year (affecting the member's eligibility to non-concessional contributions, spouse contributions and government co-contributions).

10. Fund expenses cannot be of a personal nature

Expenses can only be paid by the fund where they relate to the running of the SMSF and the tax invoice is in the name of the SMSF. No expenses of a personal nature can be paid by the fund.

11. Assemble your benefit payments documentation

Make sure documentation relating to a benefit payment (lump sum or pension) is in place. Pensions must be paid in cash. Lump sums can, however, be paid in-specie. At this stage, if you have paid more than your reduced COVID-19 minimum, you cannot refund the excess back to your fund.

12. Documentation requirements due to COVID-19 - pension reduction

Trustees need to document a member's decision to take the reduced pension minimum. The auditor will require this to see why the ordinary minimum was not drawn from the fund in the 2020 financial year.

13. Documentation requirements due to COVID-19 - rent relief

The ATO and the auditor will not take compliance action where an SMSF landlord gives a related party tenant rent reduction in 2020 and 2021 financial years. However, the rent relief must be due to the impact of COVID-19 and must be on arm's length terms.

14. Check actuarial certificates and determine if your fund is subject to the disregarded small fund assets rule

The rules changed in the 2017/18 financial year and your fund will not require an actuarial certificate if:

1. It has been 100% in pension mode for the entire financial year
2. It is not subject to the 'disregarded small fund assets' rule.

Disregarded small fund assets are where:

- Any member of the SMSF has retirement phase assets of at least $1.6 million
- The asset does not need to be in the SMSF
- Measured as at 30 June the previous financial year.

So, if $1 million is in pension mode in your SMSF and you also have, say, $600,000 in an industry fund also paying you a pension as at 30 June 2019, the SMSF will be subject to the 'disregarded small fund assets rule' in the 2020 financial year. It will require an actuarial certificate, even though the certificate will say the fund was

100% in pension mode (and thus not subject to tax on earnings). This requirement will probably not apply from 1 July 2021, as a change was mooted in the 2019 Federal Budget.

There are many benefits from the control and cost advantages of running your own SMSF, but it also comes with responsibilities to work with your administrator and auditor to ensure it remains compliant.

Nicholas Ali is Executive Manager, SMSF Technical Services at SuperConcepts, a sponsor of Firstlinks. This article is for general information purposes only and does not consider any individual's investment objectives.

For more articles and papers from SuperConcepts, please click here.

Have stock markets become a giant Ponzi scheme?

Martin Conlon

The past few months have exacerbated a trend we have been following with concern for some time now – the ever-increasing disconnect between financial markets and the real economy.

The COVID-19 outbreak has triggered a huge expansion of government balance sheets which in turn has enabled market darlings to reach dizzying valuation heights, to the point where financial markets might best be described as Ponzi borrowing.

This type of financial instability is not new, but when combined with the impact of a health crisis, it is particularly troubling.

Financial instability moves

Distinguished economist Hyman Minsky developed the financial instability hypothesis in the 1970s, which argued that capitalism moves between periods of financial stability to instability, with periods of stability leading to overconfidence by borrowers and lenders and encouraging excessive borrowing. This in turn increases volatility and ultimately triggers a crisis.

At the moment, Minsky's hypothesis seems particularly relevant. The proportion of zombie companies (companies that are able to service, but not pay off, their debt) is growing, while productivity is declining, and economic growth is illusory. And if significant proportions of lending are based exclusively on an expectation of rising asset values, the result is Ponzi finance.

Worryingly, this trend shows no sign of having peaked. Indeed, the significant and long-term implications of COVID-19, and the decisive steps taken by governments and central banks around the world in response, have accelerated the pressure on stability.

At the same time, it has justified extraordinary monetary and fiscal stimulus actions that would usually be seen as overstepping mandates, and the scale of this overstepping will only increase as the system becomes increasingly unstable.

But having cried wolf too often, no-one now takes seriously the prospect of central bank balance sheet reduction or an end to monetary support.

Valuation-based investment

The disconnect between the financial system and the real economy has seen many investors lose faith in the concept of mean reversion and the strategy of valuation-based investment. Instead, the rewards seem to have flowed to those who seek 'quality' and 'growth', though perceptions of 'quality' seem to exhibit a high degree of subjectivity. In some ways, it can be described as chasing high multiples for market darlings and loss-making businesses that are supported by government largesse.

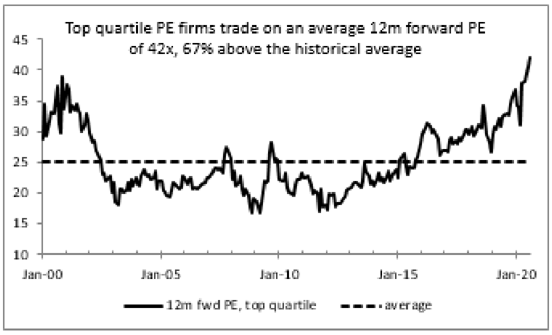
Exacerbating this trend is the recent growth in index investing which has constantly rewarded share price winners and punished losers without regard to fundamentals.

At Schroders, we continue to subscribe to the belief that mean reversion (at some point), and investment in real economy businesses which have not been inflated by easy money, will be rewarded, although there is no doubt that following this investment approach now has been tougher than ever.

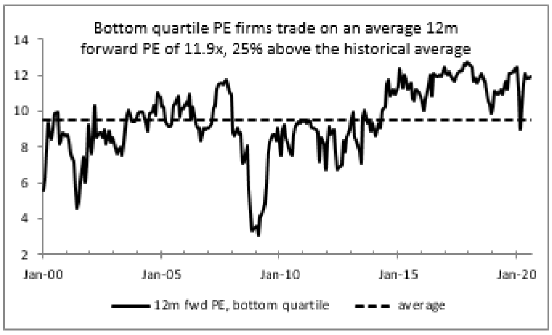
Nonetheless, to us it seems inarguable that growth is an input to be used when valuing a business, not just an attribute to be sought at any price. On this basis, valuations of companies predicted to have attractive growth prospects have escalated far beyond realistic levels. As shown below, the top quartile Price/Earning (P/E) companies in the ASX200 have a P/E of 42 versus only 12 for the bottom quartile, a remarkable value dispersion for Australia's top companies.

ASX200 Valuation dispersion

Top Quartile



Bottom Quartile



Perhaps even more worrying, they have maintained these valuations even as markets start to cool down.

Despite the fact that the global economy is presenting few growth prospects, we are seeing profit forecasts that would be unconvincing in a booming economy, let alone one that is being hit hard by a global pandemic.

Global financial casino

We continue to believe that fundamental value creation happens slowly, and that our role is to protect our investors' hard-earned capital against the excesses of global financial markets – or perhaps what we could call the global financial casino. We remind investors that history has shown, time and again, that all bubbles burst and that growth cannot continue into perpetuity.

At the same time, we acknowledge that there will be no rapid exit from the global financial casino.

It seems more than likely that the current policies aimed at supporting the supremacy of the financial system over the real economy will continue, with a global financial casino running alongside a real economy that is increasingly fuelled by debt-funded government support.

For investors, the challenge is to identify which investment strategy is best suited to this environment.

On one hand, investors could simply abandon any realistic attempts to value companies and instead simply chase the hot streaks. But this type of herd behaviour is not 'investment'. The share price alone is creating the appeal, not underlying value creation.

Another option is to rely on considered and realistic views of valuation, grounded in the low-growth and high-risk environment investors face. But to take this approach, investors must accept that fundamental value creation happens slowly and does not result in 200% share price gains in a quarter.

In a year when 'social distancing' has entered the lexicon, we continue to believe that staying away from the herd, by chasing growth with nothing to support it, is still the best path to take.

Martin Conlon is Head of Australian Equities at Schroders. This article contains general information only and does not take into account your personal objectives, financial situation or needs. These matters should be considered before acting on the information provided.

Funding retirement through a stock market crash

Andrew Wilson

Most retirees have seen their savings fall in value over the past six months and may question whether this affects their ability to fund a comfortable lifestyle for the duration of their retirement. Seeing investment values fall is an unpleasant experience; however, it doesn't need to have a lasting impact on retirement plans.

Protect your future cash flow

In a best-case scenario, a retiree's annual living costs are met by income from investments including those held inside superannuation. Living off investment income avoids eating into the capital value of retirement savings and funds a comfortable lifestyle in perpetuity.

However, dividends and distributions can be lumpy and at times, unpredictable. Building a cash reserve within a super fund can provide a safeguard to ride out investment market volatility and avoid selling investments at a low value. The cash reserve should typically be the equivalent of 1-2 years of living expenses. As an example, if living expenses are $90,000 a year, the cash reserve should fluctuate between $90,000 and $180,000.

Contrasting two common super strategies

In this article, we contrast two super fund structures and the impact of drawing a regular income from each during a market down-turn.

1. Single unitised investment such as a diversified fund

These are single investment options within a super fund that comprise a range of assets such as shares, bonds and cash. The member purchases units in the investment option along with other members of the same super fund. Each member receives a share of the investment return proportionate to the amount they invested.

These are the most common super fund structures and typically have names such as 'Conservative', 'Balanced' and 'Growth'.

When a member draws retirement income from these structures, they are selling units in the investment at the *current market value.*

2. Portfolio + cash account

Let's call this a bespoke portfolio, such as an SMSF. Each member selects shares, bonds and managed funds in which to invest their superannuation. The super fund also has a cash account which receives any investment return and from which regular payments to the retiree's personal bank account are made. Each member's return is based on their own individual investments, irrespective of other members of the same fund.

These are typically SMSFs or super wraps. The key point is that the retirement income comes from drawing funds from the cash account rather than selling investments.

Case study

Consider a retiree with superannuation savings of $2,000,000 who requires $90,000 a year to fund a comfortable life. They have a balanced risk tolerance, allocating 65% of their savings to shares to generate a higher long-term return and 35% to interest-bearing investments for stability.

Let's assume the retiree's average return over a 10-year period is 6.6%, including a share market decline of -20% in year 5 and a recovery in year 6. For simplicity, outside years 5 and 6, we have assumed a constant return in each asset class year (shares: 10%, fixed interest: 3%, cash: 1%).

This table shows the total return we have assumed in each year:

TOTAL RETURN

Year	Shares	Fixed Interest	Cash	Total
1	10%	3%	1%	
2	10%	3%	1%	
3	10%	3%	1%	
4	10%	3%	1%	
5	**-20%**	**5%**	1%	
6	**35%**	**1%**	1%	
7	10%	3%	1%	
8	10%	3%	1%	
9	10%	3%	1%	
10	10%	3%	1%	
Average	**8.8%**	**3.0%**	**1%**	**6.6%**
Allocation	65%	26%	9%	100%

Strategy comparison

Diversified Fund

- Each year the member draws $90,000 from their balance to fund their living costs.

Bespoke Portfolio

- The member starts with the same investment allocation as the Diversified Fund, including a cash reserve of two years of income (i.e. $180,000)
- Each year they draw $90,000 from the cash reserve
- Prior to the market crash, they top up the cash reserve annually back to $180,000 by drawing on their investments
- Shares are not sold after the market crash which results in the cash reserve reducing temporarily
- After share markets recover the cash reserve is topped up gradually ensuring it never falls below $90,000.

Possible outcome

The chart below compares the value of the Bespoke Portfolio relative to the Diversified Fund. Over a 10-year period, the Bespoke Portfolio gains an additional $80,812.

This difference is primarily a result of allowing investment returns to compound over longer periods, but this is also the cause of the negative outcome in year 5. The cash reserve allows the retiree to preserve their share market investments during the market correction helping their retirement savings grow in future years.

The main reason the Bespoke Portfolio does better is that shares are not sold after the market crash, as income needs are met from the cash reserve. In this example, the Portfolio then benefits materially from the 35% gain in the following year.

VALUE OF EACH STRATEGY ($)

Year	Bespoke	Diversified	Difference
1	2,057,400	2,057,400	0
2	2,120,540	2,119,030	1,510
3	2,189,994	2,185,203	4,791
4	2,266,393	2,256,252	10,141
5	1,890,915	1,904,301	-13,387
6	2,255,233	2,254,196	1,037
7	2,346,256	2,330,330	15,926
8	2,446,382	2,412,075	34,307
9	2,556,376	2,499,845	56,531
10	2,674,896	2,594,084	80,812

Other considerations

Other considerations that will impact the future value of the retiree's savings:

- Starting allocation to shares vs fixed interest investments
- Frequency and level to which the cash account is topped up
- Regularity of rebalancing between asset classes
- Fees and costs of the super fund and financial advice
- Taxation on investment returns.

Here we've compared only the super fund structures and assumed all else is equal. There are many other considerations including insurance options, estate planning and ease of management. There is no right or wrong, rather different fits for different situations.

Most important is that retirees have clarity on the cost of a comfortable life, understand where they want to be in the future financially and have a strategy in place to achieve these objectives. Don't leave it to chance.

Andrew Wilson is a Client Director for Wealth Management at [Pitcher Partners](#) Sydney. This article is for general information and does not take into account your investment objectives, particular needs or financial situation.

Australia's government debt and interest burden: Can we afford it?

Ashley Owen

In Australia, the Commonwealth Government was carrying very low debt levels of $50 billion before the GFC. Then, to counter the GFC, it borrowed an average of $50 billion *per year* net for the next 10 years, taking the level of debt to $560 billion before the virus hit. Now it is borrowing around $35 billion *per month* to fund all of its welfare programmes.

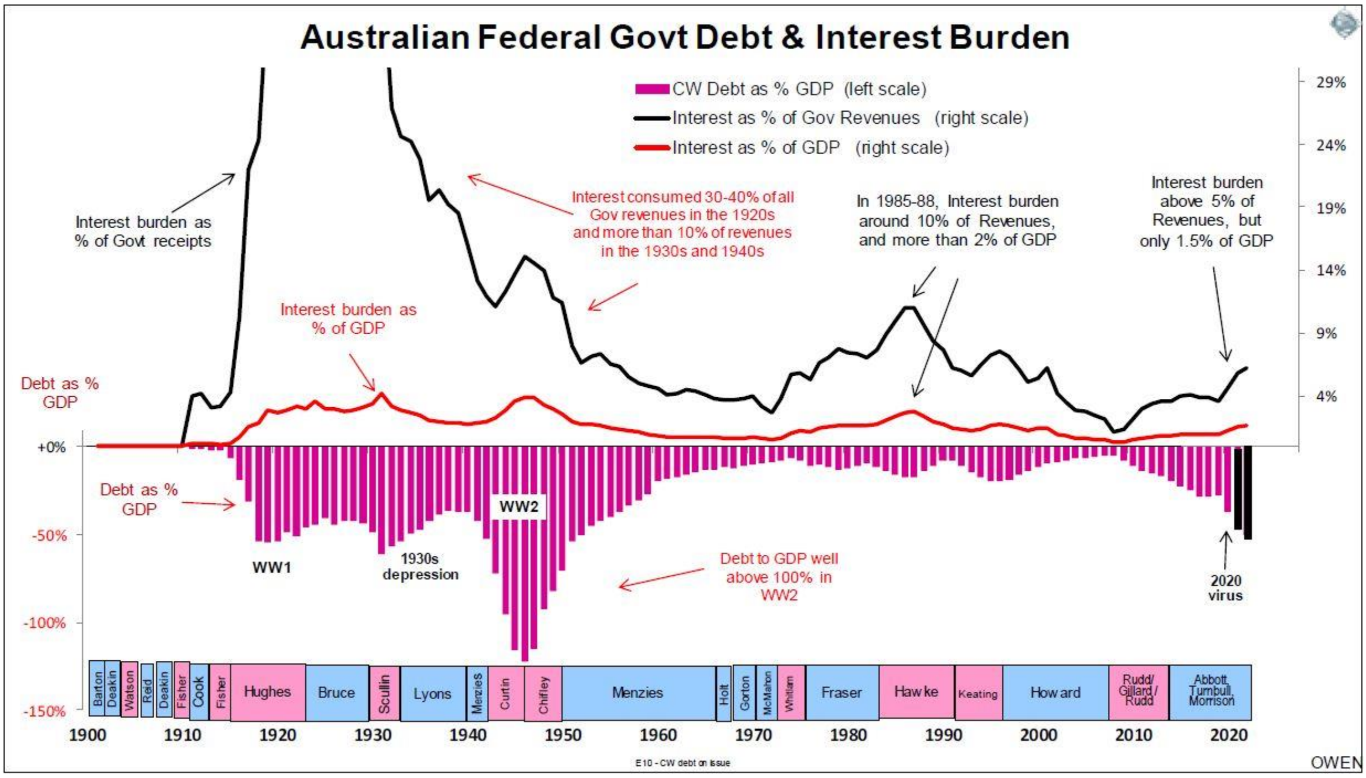
Can we afford all this debt?

The Commonwealth Government ran surpluses for six years from 2003 to 2008 in the China-driven mining boom, then it ran deficits in the GFC to support economic growth and jobs. That is precisely what governments should do - build surpluses in the good years so they can deficit-spend in economic crises to provide short-term support.

The problem was that both Labor and Liberal/National governments since the GFC became addicted to big spending and running up deficits well beyond the GFC. The Commonwealth ran deficits for the next nine years until 2018, for what was really just a one-year crisis, especially as the Chinese stimulus re-boot boosted exports, revenues and jobs from 2010 on. Windfall iron ore revenues produced a tiny surplus in the June 2019 year, but Commonwealth debt had grown from $101 billion (8% of GDP) in the GFC in 2009 to $540 billion (28% of GDP) in 2019.

The size of government has been increasing over time as a share of total national spending. In 2007, at the top of the last boom prior to the GFC, Commonwealth spending was $224 billion (21% of GDP), but by 2019 before the virus, it had grown to $448 billion (25% GDP). During that time the debt pile grew by 830%, but the population grew by just 20%, and CPI inflation had only risen by 30% in total. Then the virus (or rather the virus lockdowns) hit, and the government is now borrowing $30 billion-$50 billion per month to fund its spending programs. This seems high, but is it?

To provide some context on the national debt, the chart shows Commonwealth Government debt, and the debt servicing costs since Federation. The pink bars in the lower section show debt as a percentage of national output (GDP) each year.



Recent debt build-up and affordability

Toward the right end of the pink bars, we see the build-up of debt from 2009 on. The two black bars represent likely 2021 and 2022 debt levels assuming the current plan to increase debts by $240 billion in the current June 2021 year, plus an additional say $100 billion in the June 2022 year. Welfare is extremely difficult to scale back or withdraw (eg the JobSeeker will probably remain at the higher level) and it doesn't include the government promises of tax cuts.

The current level of debt at 37% of GDP is higher than it has ever been since 1956, but still lower than historical average debt levels. The likely 2021 and 2022 levels of debt are also still low relative to the previous big debt build-ups.

Australia's current level of government debt is low relative to most of our global peers, and even the 2021 and 2022 levels would be low in global terms. But more important than the level of the debt is its affordability.

The current $684 billion of debt costs taxpayers $22 billion per year in interest, or $61 million every day, or $2.40 per person per day (less than one coffee per day per person). The total interest burden sounds like a lot but there is more to the story.

The affordability of the debt is shown in the upper section of the chart. Interest on government debt as a percentage of national income (GDP) (red line), and also the percentage of government revenues (black line). The current interest burden is quite modest, at 4.5% of government revenues and just 1.2% of national income.

This is lower than almost any other time since the early 1950s, and also lower than almost every other country in the world today. Even the likely 2021 and 2022 debt levels would see the interest burden at around 5% of government revenues and 1.5% of total national income.

The reason for the relatively low interest burden is that the interest rates on government bonds are at historical all-time lows thanks to declining global bond yields since the GFC, and the RBA pegs and bond-buying since the virus crisis.

Low rates will not last forever

Bond yields will probably rise in the medium term as economic activity recovers here and around the world. The good news is that rising bond yields don't translate into higher interest payments until each bond matures in the future and is refinanced by another bond at a higher prevailing rate at that time, which in some cases is 30 years into the future.

Even if bond yields rise rapidly in the next few years, the average interest cost on the total pile of debt will remain low for at least another decade because of the low rates already locked in.

If Australia were a company, its national debt would be labelled a 'lazy balance sheet' and the CEO and Chairman would be fired by shareholders for not borrowing enough to invest in productive assets for future growth.

Based on affordability, these levels of debt are manageable but there is one major caveat. Investing for the long-term future requires coherent vision, long-term commitment and a willingness to make tough decisions. These require longer election cycles than the current theoretical three-year terms (which never last the full three years), and recently have been punctuated by 'palace coups' within the ruling parties between elections.

With that caveat in mind, Australia's position is one of the best in the world. It has always been a country in which the opportunities for growth and investment have far exceeded the local savings pool available to fund its development, and so it has always had to import people and capital.

A country is not a household

When talking about debt, many people liken a country to a household, where it is prudent to have no debt, or at least to pay off debts as quickly as possible. In a household, the breadwinner(s) stop generating income at some point and thereafter must draw down their accumulated savings to fund decades of retirement spending with no labour income.

However, a country is more like a company than a household. Companies and countries can last forever (in theory anyway) and they can (and probably should) carry a level of debt, as long as the cost of debt is lower than the additional income generated by the productive assets funded by the debt. Ideally, the debt should be in the country's own currency (as is 100% of Australia's debt), and should mainly be fixed-rate, not floating, so the level of interest payments is not volatile (this is also true for Australia).

Most countries lie somewhere between these two views. Australia has an aging population and rising welfare and health costs, but it is still the best placed among its 'developed' country peers due to its relatively favourable demographics and healthy immigration programmes targeting work-ready individuals and families.

It is far better placed than Japan and northern Europe that have declining populations, declining workforces and declining tax-payer bases. Those countries are indeed more like households, where the breadwinners in aggregate are reducing their income-generating ability and are literally dying off.

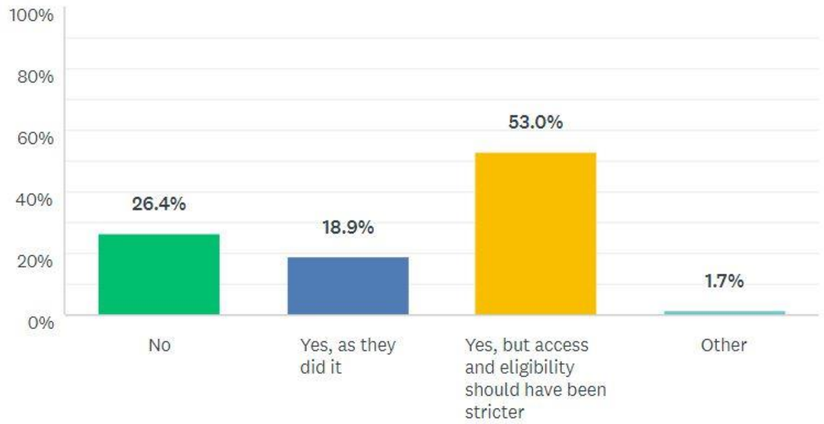
Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown] and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is for general information purposes only and does not consider the circumstances of any individual.

Your views on early access to superannuation

Leisa Bell

Our September 2020 survey sought readers' views on how the Government has handled the COVID pandemic. We received over 400 responses with hundreds of comments. The first question was:

Was the Government correct to allow early access to superannuation?



About 26% of readers disagreed with the early release of super, while 72% agreed with the policy. However, 53% thought the assessment for eligibility should have been a lot tighter.

The reasons for people answering 'no' included that access should have been assessed under super's existing 'hardship' provisions; that allowing early withdrawal was too short-sighted and defeated the purpose of super; that JobKeeper and JobSeeker should have been enough support; that reduced or depleted super balances will mean additional reliance on the aged pension in future; or dismay at reports of the misuse of the funds.

For comments, see the [online version of this article].

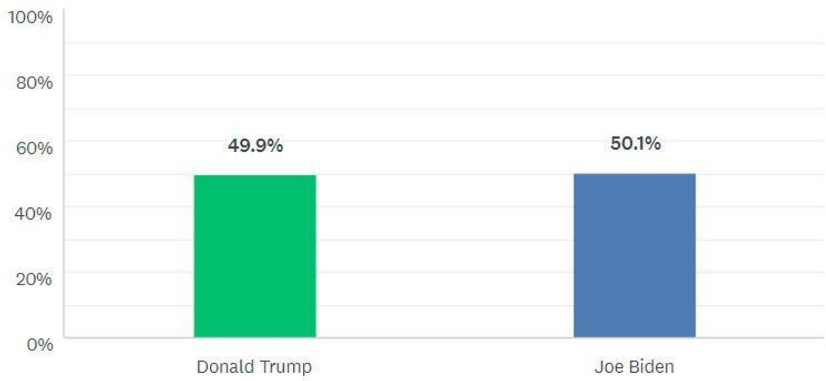
Your predictions for the US presidential election and the ASX300

Leisa Bell

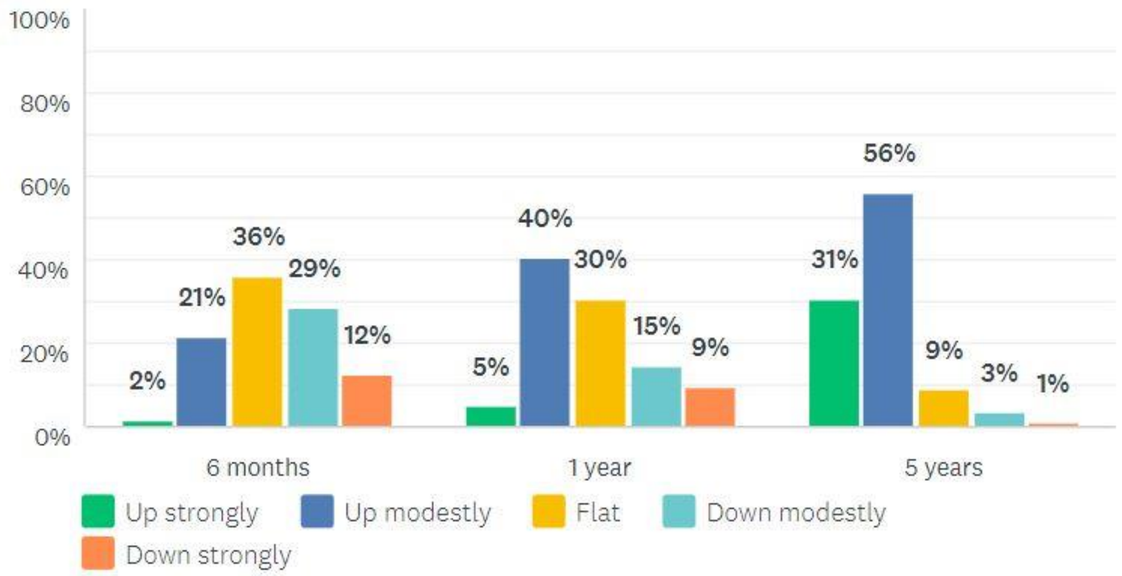
Our September survey asked who would win the next US Presidential election, and where the ASX300 would be over the next six months, one year, and five years.

Who do you think will win the U.S. Presidential election in November 2020?

A nail-biting result if Firstlinks readers know their stuff. We have Biden winning by a very narrow 0.2% margin.



What level do you expect the ASX300 index will be in 6 months, 1 year and 5 years?



The short-term outlook for the ASX300 is evenly distributed, hovering around flat or modestly up or down. Looking at a 1-year horizon, most have predicted the market will be modestly up (40%) or flat (30%). Then, for the 5-year horizon, we see optimism creeping in a bit more, with the majority saying the market will be modestly up (56%) or strongly up (31%).

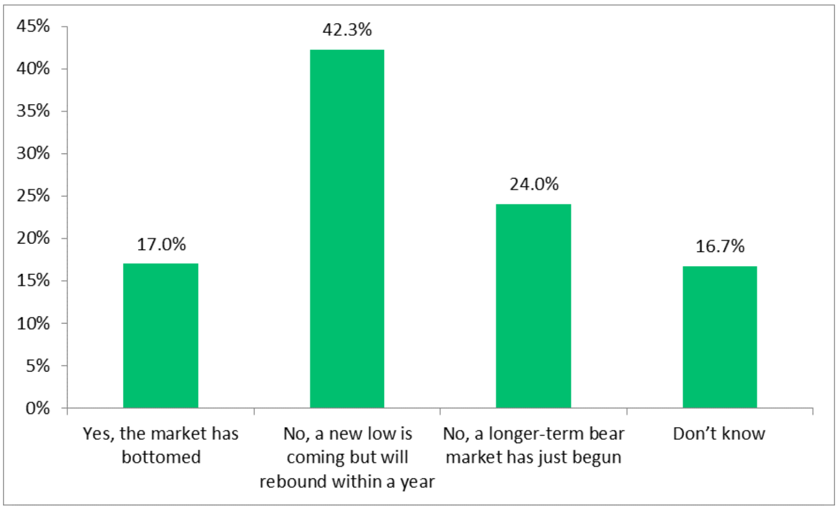
For comments, see the online version of this article.

Comparison with our April 2020 survey

In our previous COVID survey, we asked: *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, but clawed back to 5,443 by 14 April, making it down 23% since the high. Despite the recovery, only 17% thought the market had bottomed, a similar number to those who didn't know. Two-thirds of responses thought a new low was coming, including 24% who said we are in a longer-term bear market. At time of writing this, ASX300 is back to 5,900.

Here are the results again from April 2020, indicating that so far, the market recovery has been much better than expected.



Your views on the Victorian COVID restrictions

Leisa Bell

Our September survey sought readers' views on how governments have handled COVID-19. The question relating to Victoria was:

Do you think the latest lockdowns in Victoria are too harsh?

The majority of readers (68%) thought that the latest lockdown was indeed too harsh, either because of the extremely low levels of cases required before easing or for fear of underestimated adversity (or both). 32% of respondents thought the strict measures were required given the circumstances.

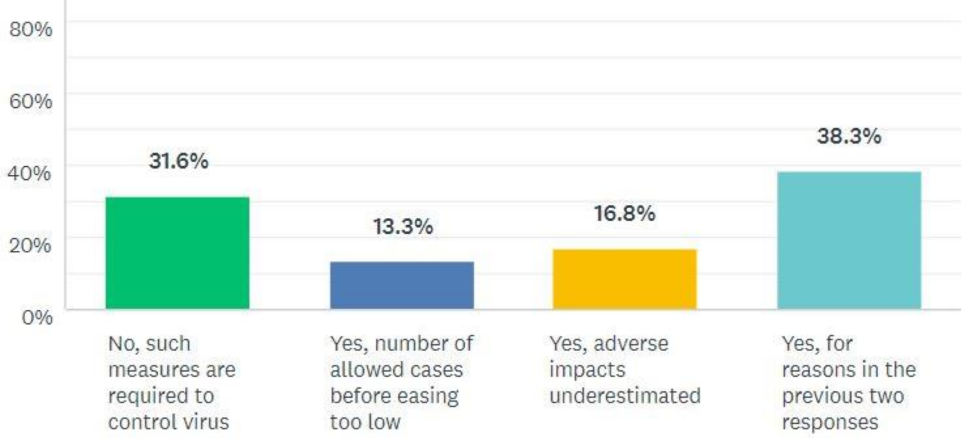
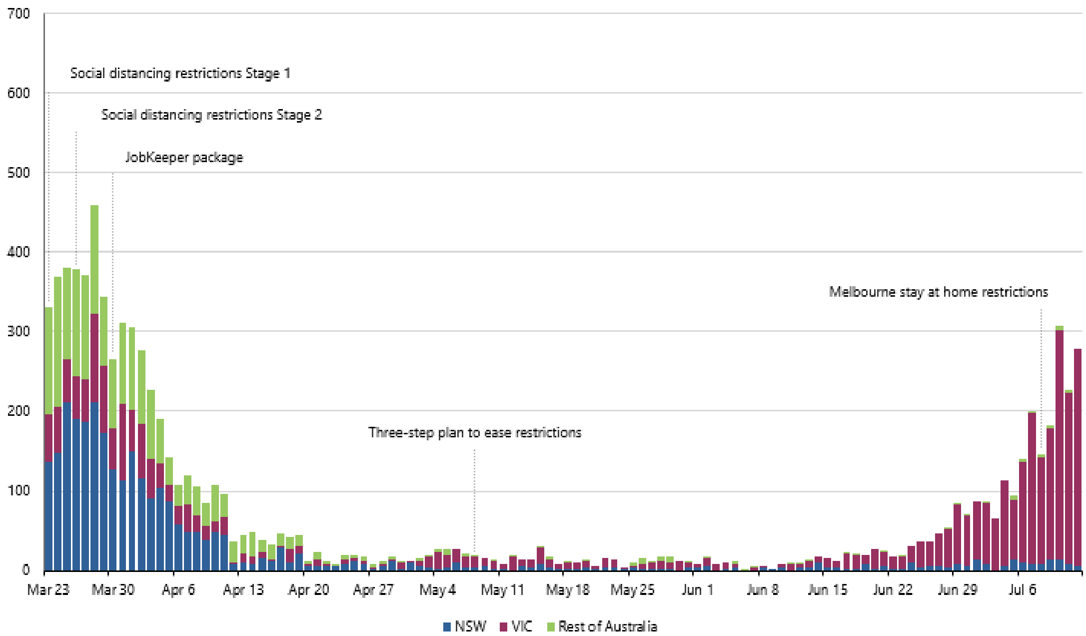


Figure 2: New daily cases of COVID-19, NSW, Victoria and the rest of Australia



The comments show that decisions made by any government in these difficult circumstances are never clear cut. We all want fewer cases and deaths but the personal and financial costs are extremely high. For comments, see the online version of this article.