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Editorial

The 46th President of the United States, **Joe Biden**, was sworn in overnight, protected by over 20,000 troops in the Capitol, and we all hope it heralds a new era in US politics. Biden delivered a message about unity, including ending "*this uncivil war that pits red against blue*". He spoke of the need for truth and highlighted when "*facts themselves are manipulated and even manufactured*".

It will not be the end of Presidential tweets, as Biden announced:

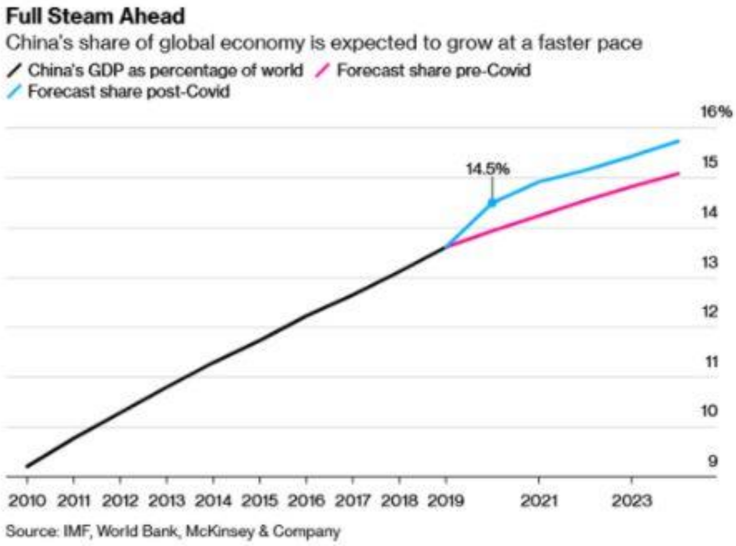
It followed a chaotic couple of months where **Donald Trump** desperately tried to prevent the transfer of power. In a speech the day before the inauguration, Trump said his political movement was only just beginning. It's unlikely we have seen the last of him. Even US Senate leader **Mitch McConnell** accused fellow Republican Trump of provoking the 6 January riots. Still, three-quarters of Republicans believe the election result was rigged and 74.2 million Americans voted for the outgoing President, despite 400,000 US citizens dying from COVID-19 and the rise of white supremacy under his watch.

The inauguration overshadowed an event equally important for markets, the appointment of **Janet Yellen** as Treasury Secretary and her testimony to Congress on Tuesday. She asked legislators to *"act big"* on virus stimulus, and in her previous role at the US Fed, she was a strong supporter of full employment. It's a further reason the market is having a Biden bounce.

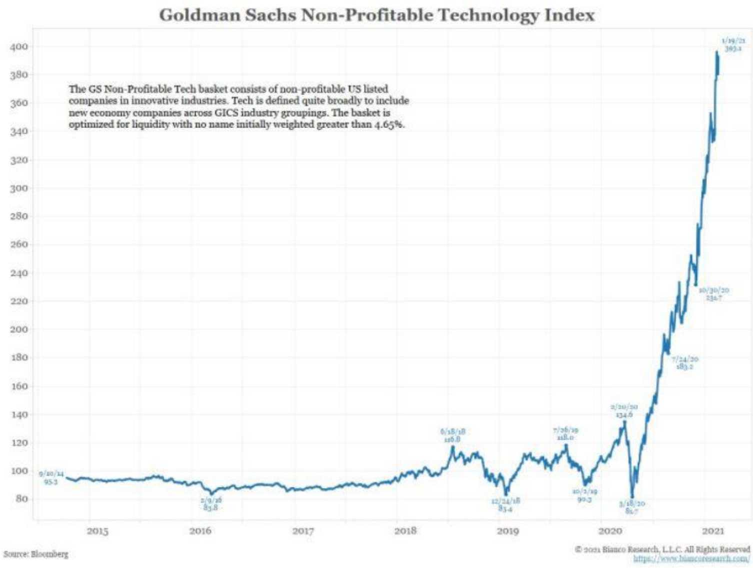
While Joe Biden clearly has his work cut out uniting the nation, the US economy is a remarkable growth engine. Putting aside inequality issues (which should not be ignored), the US system has spawned some of the most influential and in their own way, greatest companies the world has ever seen. **Amazon, Apple, Microsoft, Facebook, Google, Netflix** ... the list goes on ... have changed the way we live. Not always for the better but most of us enjoy their services even as we complain about their market power.

We have lived through a remarkable decade, and at a time when many are questioning the ascendancy of the US, China's share of global GDP is rising, from 9% to 14.5% since 2010. Post-COVID, China is on an accelerated path, as this chart forecasts.

And with Joe Biden comes more stimulus and stockmarket optimism, with US markets reaching new records overnight. Companies do not even need to make a profit now or in the near future to become extremely valuable. In the US, Goldman Sachs produces on index of non-profitable listed companies, mainly using a broad definition of tech, and it's a 5-bagger in less than a year. The index barely moved for the previous five years, showing how 2020 has taken investors into rarefied territory.



One day, but who knows when, there will be a reckoning. **Charlie Munger** recently told the **California Institute of Technology** that the tech frenzy as exemplified by **Apple** was "*the most dramatic thing that's almost ever happened in the entire world history of finance.*" Quite a claim from a 97-year-old. "*This has been unbelievable. There's never been anything quite like it.*"



The stories of how many stocks are not trading on fundamentals is repeated so often it is almost tiresome. Any number of charts illustrate the point. **Elon Musk** can tweet about an unknown company (such as **Signal Advance, Inc**) and the share price can rise 10-fold over a couple of days. There is no analysis of company value and the sheer speculation will only stop when there is a major correction.

The contrast to an investor such as **Peter Thornhill** could not be greater. He has stuck to the same simple methods for 40 years, and he updates his 'mothership' chart to show the latest results as well as explaining his techniques. It has delivered a handsome retirement income for him.

On the subject of a slow accumulation in wealth, **Brendan Ryan** updates his list of ways the Government helps retirees, and it pays to check his list, even for those not eligible for the age pension.

Like **Warren Bird**, I find the word 'millionaire' meaningless as a description of a genuinely wealthy person. Invest a million at say 4% and the resulting $40,000 would barely finance a modest lifestyle (as per the ASFA standards) for a couple in retirement. Warren shows why the word has lost its relevance.

Most investors accept the role of ESG principles in portfolios, but **Marian Poirier** says actions should be backed up by active ownership to translate meaningfully into added equity returns. Companies are listening to their owners.

Portfolios benefitted from an allocation to gold in 2020, both for returns and diversification, but there was some second-half softness as equities rallied. **Jordan Eliseo** checks the headwinds and tailwinds for 2021.

Back to the US/China tussle, **Michael Collins** identifies a major conflict front with winner-take-all trade war potential and ramifications for all other countries. There is no limit to the ways technology will change our lives.

And **Carden Calder** hosted a forum of superannuation and funds management experts to find out how managers are promoting their funds, and it's worth professionals and their clients learning what's going on.

This week's White Paper is the **BetaShares** review of the remarkable successes of ETFs over the last year as the $100 billion milestone rapidly approaches. It was not long ago that Australians were criticised for their heavy domestic investing bias, but ETF flows in 2020 show that's an old story. Fixed income and commodities are also well supported.

Top 5 Category Inflows (by $) - 2020

Category	Inflow Value	Rank Movement
International Equities	$7,556,516,555	-
Australian Equities	$6,766,821,310	+1
Fixed Income	$2,432,444,758	-1
Commodities	$1,538,831,807	+3
Short	$798,757,014	+4

Vanguard Australia also reported its best ever year in 2020 with $5.7 billion of inflows, up 12% on 2019. Its December inflows of $2.1 billion were also a record. So much for a pandemic year worrying investors as equity funds also dominated.

Four simple strategies deliver long-term investing comfort

Peter Thornhill

(Editor's introduction: Peter Thornhill is well-known to many of our readers, mainly for advocating a multi-decade investment strategy based on the long-term merits of industrial companies for income versus nearly every other asset class. For example, two of his previous articles in Firstlinks are here and here. In this new piece, he checks what he calls his 'mothership' chart, which shows the long-term return from industrial shares versus term deposits. It's his way of explaining that for investors with the right stockmarket risk capacity and investment horizon, the poor returns on term deposits represent a greater risk).

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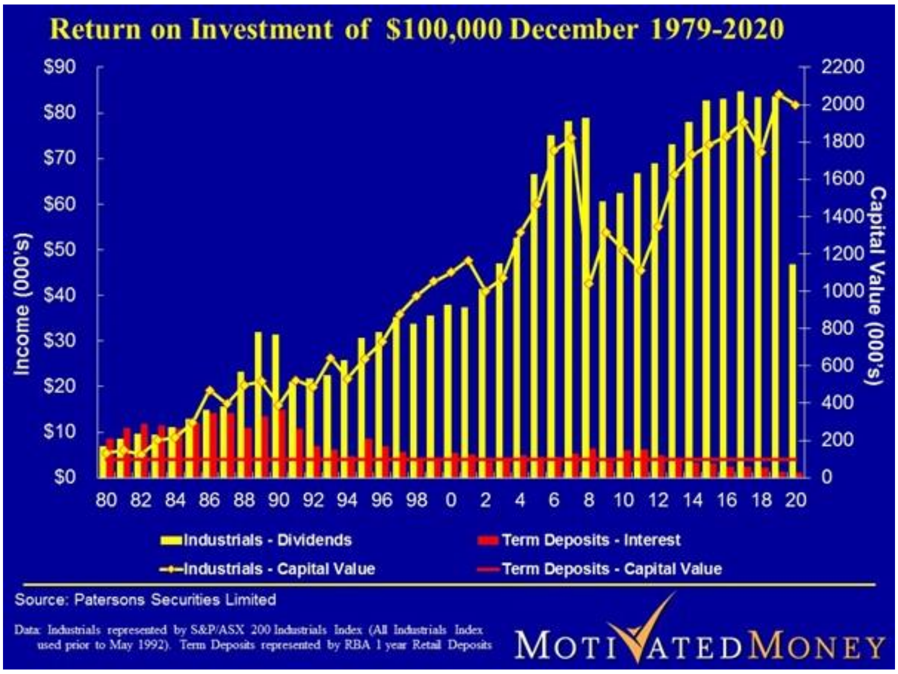
It was with bated breath that I waited for the year-end results and now that they are in, I can only say how pleased I am and how affirming they are. Let us begin with the 'Mothership' chart, the S&P/ASX200 Industrials Index compared to term deposits, which I have monitored since 1979 (when obviously interest rates were much higher).



Although the ASX200 Industrials Index fell by 35% to March 2020, by year-end it was only down 2%. Thus, at first sight, the large drop in the dividends of the index, -44%, is a bit daunting. Quite understandable though as every business was facing an uncertain near term with the impact of COVID.

But remember, we have been here before in 1991 and 2008, and we will go there again.

Massive opportunity cost of cash

It is also worth noting that whilst media commentary is dominated by shares, we should not ignore the other asset class, cash, the bolt hole for all frightened potential investors.

Whilst I acknowledge that cash doesn't go up and down, the opportunity cost of holding it is large and often totally discounted in most people's minds. If you thought the dividend drop above was hard to swallow, the income returns from deposits (the red) have fallen from their peak in the late 1980s by 80%. Not many headlines about the cash crash and death by a thousand cuts for investors.

I have a personal preference for Listed Investment Companies (LICs) over managed funds, i.e., the difference between a corporate structure and a trust structure. The flexibility of the corporate structure enables LICs to retain income and capital gains for reinvestment and reserves, whilst trusts (managed funds and ETFs) must distribute all gains and income.

You can see below how the ability to retain profits provides flexibility and has enabled some of the major, long-established LICs to not only soften the dividend blow for their shareholders by using those retained profits but, in some cases, increase their dividends to shareholders this year.

	Calendar Year 2019 Divs		Calendar Year 2020 Divs		% Change	
LIC	Ordinary	Inc Special	Ordinary	Inc Special	Ordinary	Inc Special
AFI	$0.24	$0.32	$0.24	$0.24	0.00%	-25.00%
ARG	$0.33		$0.30		-9.09%	
BKI	$0.07	$0.10	$0.06	$0.07	-18.83%	-29.30%
MLT	$0.19	$0.22	$0.18	$0.18	-9.79%	-20.09%
SOL	$0.58		$0.60		3.45%	
WHF	$0.20		$0.21		1.23%	

Now let's look at some of the major index ETFs and their dividends.

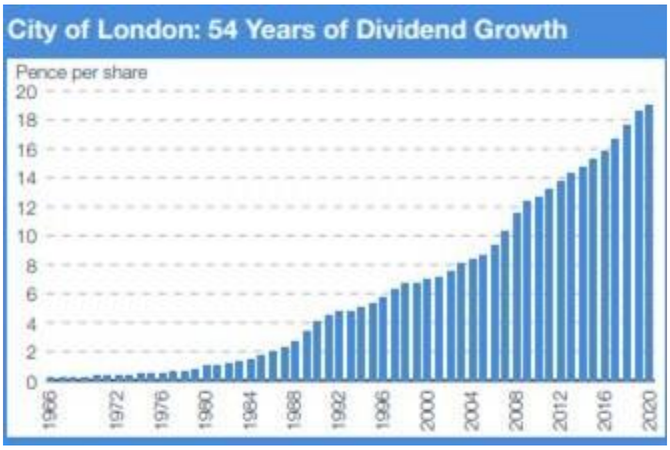
	Calendar Year 2019 Divs		Calendar Year 2020 Divs		% Change	
ETF	Ordinary	Inc Special	Ordinary	Inc Special	Ordinary	Inc Special
VAS	$3.53		$1.88		-46.70%	
STW	$2.90		$1.39		-51.85%	
A200	$4.55		$2.30		-49.37%	
IOZ	$1.23		$0.55		-55.53%	

With no ability to retain income in ETFs, their dividends reflect the full brunt of the actual dividend reductions.

Our personal portfolio

Now consider our personal portfolio. Our super fund has 27 holdings and roughly a quarter of them are LICs. Aided by the resilience of the LIC dividends, our total dividend income dropped by only 15% in 2020. I intend to go on winding down individual stock holdings, under advice from my financial adviser, and moving the proceeds into older-style LICs. The structure is a blessing as it increases our diversification and requires less involvement on my part.

A purer example is my personal fund in the UK, a legacy of our 18 years there. It has only four holdings and all are LICs. I'm talking 'hardcore'. Most of them are very old and two of them over 100 years old. Of this pair, one maintained its dividend whilst the other, founded in 1861, increased its dividend. This happens to be its 54th consecutive year of dividend increase and here's what that looks like. It's a sight for sore eyes and minds ravaged by senseless media commentary.



In the midst of all this carnage, the result for us, from old blighty, was a small overall increase in our income for the full year.

Comfort from a simple strategy

I put my comfortable feelings down to several things.

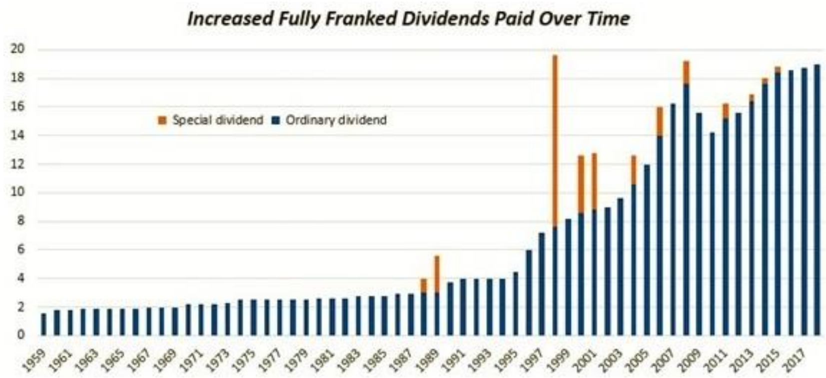
First and foremost, we hold sufficient cash in our super fund to meet the next three years of Government-mandated minimum pension withdrawals. This ensures we are never forced sellers and provides dry powder for bargain-hunting on market dips.

Secondly, my investment philosophy is 'benign neglect', that is, stick to doing only what I am good at and outsourcing the rest.

Thirdly, my two golden rules: SPEND LESS THAN YOU EARN and BORROW LESS THAN YOU CAN AFFORD.

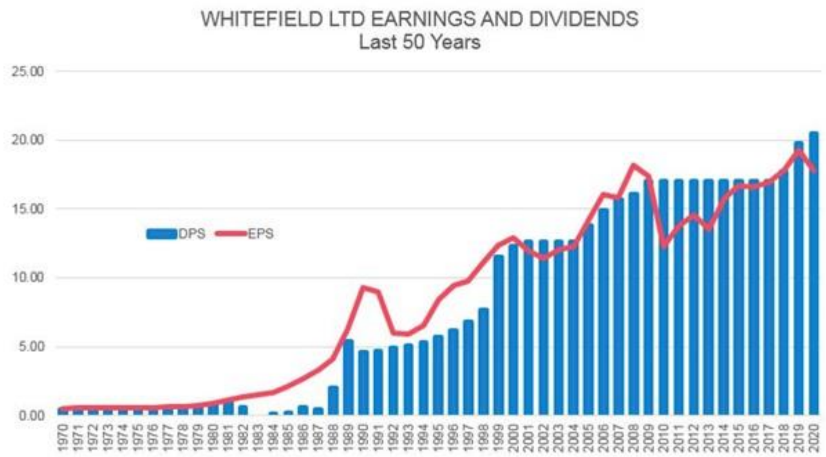
Finally is the consistency of the objective of the old LICs I invest in. For example, Milton's Investment Philosophy is clear:

"Milton is predominantly a long-term investor in companies listed on the ASX that are well managed, with a profitable history and an expectation of increasing dividends and distributions. Turnover of investments is low and capital gains arising from disposals are reinvested."



Another of my domestic favourites is Whitefield, particularly as it is industrial shares only, no resources:

"Whitefield Ltd is an ASX-listed investment company holding a diversified portfolio of ASX-listed Industrial (non-resource) shares. An investment in WHF Ordinary shares provides an investor with a stream of fully franked dividends as well as the potential to benefit from growth in the underlying value of the investment portfolio over time. The company was founded and listed on the ASX in 1923."



None of the "we are a value, top down, bottom up, thematic" etc, etc.

The investment objective of City of London is a pearl:

"The Company's objective is to provide long-term growth in income and capital, principally by investment in equities listed on the London Stock Exchange. The Board continues to recognise the importance of dividend income to shareholders."

City of London as been around for over 160 years, with a simple investment discipline. How comforting that umpteen changes of staff over the decades have dedicated themselves to maintaining the discipline, unlike much of the fluff that has entered the market in recent decades.

A Happy New Year to all.

Peter Thornhill is a financial commentator, author, public speaker and Principal of [Motivated Money](). This article is general in nature and does not constitute or convey specific or professional advice. Share markets can be volatile in the short term and investors holding a portfolio of shares will need to tolerate short-term losses and focus on a long-term horizon, and consider financial advice.

Great new ways the Government helps retirees

Brendan Ryan

Last year I put together a retiree checklist and it proved enormously popular. In 2021 there are some additions. The main changes are around the increase in digital services offered, as well as some lessons from cases of fraud in the later part of the year and an increase in the pension age.

This is a long list and not everything will apply to you but it should help you in organising your retirement. Investing is certainly part of the story but there is a huge amount of information in other areas of vital importance to retirees. Links have been used extensively for those seeking further details.

Managing your risk

1. If you deal with a financial adviser, check their credentials using the ASIC Financial Adviser Register. If they are listed here, they will have a bunch of obligations including being a member of the Australian Financial Complaints Authority. The big fraud story of 2020 involved an unlicensed financial adviser, which means no compulsory insurance and potentially no recourse through the Australian Financial Complaints Authority.
2. If you give delegated authority to your adviser to transact on your behalf, make sure you have your own logins to your accounts so you can also see what is going on. The big fraud story of 2020 involved clients relying on fake statements.
3. If you manage your own superannuation, it may be a good time to review other ways of managing your savings, understand the difference, and familiarise yourself with the responsibilities of managing your own superannuation. There is a massive amount of responsibility and administration here that may be better organised by a large company that is probably offering better and cheaper service than was available when you first decided to manage your super fund yourself.

Applying for the age pension or Commonwealth Seniors Health Card

1. In July 2021, the age pension age will go to 66.5 which is confusing if this is the year you turn 66. If relevant for you, make a diary note to look closely at age pension application 12 weeks before the actual birthday so you can address any hiccups well in advance of your first payment.
2. As soon as you receive your Pensioner Concession Card, start applying for your entitlements (see below for the Top 5).
3. If you are turning 66 this year, and you are not eligible for the Centrelink age pension, make sure you know why so you can get ready to apply if things change.
4. If you are turning 66 this year, and you are not eligible for the age pension, then apply for the Commonwealth Seniors Health Card. This card is income tested and could save you more than $2,500 on healthcare costs. Check again. Low income returns on investments and changes in deeming rates mean that your eligibility may have changed.

Update Centrelink

If you are already receiving a part pension, make sure Centrelink is up-to-date with the right data. For part pensioners, a change in assets of $1,000 could mean an extra $78 per year in age pension payments.

Check the right value for the car or caravan is in the system, and household contents are realistically valued. These assets are means tested so it's worth it. Your savings may have changed due to a holiday, renovation, or medical emergency.

Get MyGov organised

The Government wants you to access departments online. Now is the time to set up online. Here are some of the things you can do via MyGov:

1. Easily update income and assets by accessing Centrelink
2. Check your Medicare claims and track your safety net threshold by accessing Medicare
3. Complete your tax at the press of a button (or two) using MyTax
4. Start collecting your health data for easier use via My Health Record

Check on what you are entitled to

1. If you receive an age pension, make sure you are receiving these five entitlements:

    - Gas rebate
    - Electricity rebate
    - Water rebate
    - Council rate discount
    - Driver's license and registration concession

2. If you are in NSW and hold a Commonwealth Seniors Health Card, check the Seniors Energy Rebate. You need to re-apply for this each year. (This is not for age pensioners).

3. If you are in NSW, hold a Commonwealth Seniors Health Card or get an age pension, and live in a regional area, apply for this year's $250 Regional Seniors Travel Card after 18 January.

4. Travelling by public transport in NSW? If you want to make the most of government transport help, take a look at the following: Pensioner OPAL Card, Pensioner Travel Vouchers, Country Pensioner Excursion Tickets and Regional Excursion Daily (RED) Tickets. Got all that?

5. Search for entitlements, concessions, rebates, programmes or whatever they are called. I have more than 40 and counting on my list. Policies change, budgets have announcements - it's a moving feast. Everything from replacement appliances, fishing licenses, pet registration, and stamps. And from all levels of government and in different departments. We work with our clients to make sure they get all they are entitled to.

6. If you are part of a couple, ensure you are registered for the Medicare safety net as a family or couple. With access to Concessional Medicare Safety Net thresholds as a holder of a Pensioner Concession Card or the Commonwealth Seniors Health Card, this one is a no-brainer.

Making and adjusting your plans

1. If you are trying to work out whether your savings will last, try the ASIC Moneysmart Retirement Planner. It's better than many of the services provided by for-profit companies as it includes age pension eligibility, and works this out over time.

2. Check how your spending compares to the ASFA Retirement Standard. This is a great tool for understanding how your spending in retirement might look if things are going well, and how your spending could look if you have to tighten your belt.

Working and the age pension

1. If you are turning 66 or over, do not assume that just because you are working, the Centrelink age pension is not yet available for you. For someone with a small amount of savings, and a low income job, there may be benefits from knowing what is changing (read our blog about this).

Fine-tuning your investing

1. If your investments are hard to track, hard to organise, or you cannot link your investment strategy to your retirement plans, it might be time to consolidate and simplify. There is a link between asset allocation strategies and expected returns. ASIC explains it here.

2. Australians in later life are more likely to invest at the conservative end of the spectrum using the reliability of returns in a diversified portfolio. Use these expectations, an understanding of spending, and expectations of Government support to be the basis of long-term retirement spending plans. A long-term plan should be easy to hang your hat on with the discipline in regular reviews to make sure the plans still make sense. Allow for medical emergencies, aged care, sudden yearning for travel, urgent house upgrades and maintenance, bailing out a child … the list is endless.

The Pension Loans Scheme

1. If you own property and need a top-up for your day-to-day living income, the Pension Loan Scheme may be right for you. The interest rate is 4.5%.

2. If you are eligible for the Centrelink age pension at $0, you can apply for the Pension Loans Scheme. Wait a minute? What does this mean? What this means is that you can apply for a loan even if you are a self-funded retiree. This may suit people with illiquid assets that stop them from getting an age pension, who may be cashflow poor. People with income streams that prevent them getting the age pension (via the income test) may also apply for a top up. The Government is keen for you to tap into your property value to support your spending in later life.

What else?

A look back on what happened in 2020 lays out the themes for 2021:

1. The Government wants you to go digital. As hard as this may seem to get setup, once you are there you will not want to go back to queues, call waiting and uncertainty. Information is available and easily updated and this should be a key focus in 2021.

2. Large companies saying one thing and being something else is a problem, and they can be difficult to contact. Independent advice will help you setup in your best interest.

3. Low interest rates, unpredictable markets, long lives, uncertain future expenses ... it's a balancing act. Putting all the elements together takes work but is worth it for the peace of mind.

Brendan Ryan is a financial adviser and Founder of Later Life Advice. This article is for general information purposes only and does not consider the circumstances of any person.

Why ESG assessment must now consider active ownership

Marian Poirier

In 2020, as COVID-19 caused markets to whipsaw in response to economic recovery, vaccine and immunity hopes, the job of analysts assessing long-term asset value became far more complex and fast-moving.

The accelerated rate of change brought on by COVID also sped up critical investment decisions, highlighted the importance of Environmental, Social and Governance (ESG) considerations and expanded the discussion to include responsible investing and active ownership.

Social risk and active ownership questions

The year began with the enormous loss and hardship associated Australia's bushfires. Summer brought another wave of COVID and more lockdowns. Not surprisingly, client interactions throughout 2020 touched on one, if not all, aspects of the ever-growing ESG issues. Questions on social risk, such as human welfare, supply chain and climate, as well as reputational risks, are now at the forefront of the investment discussion.

This has moved the ESG conversation beyond E, S and G factors and their application and integration into valuation models to what they need to be anchored to in order to drive change, which is **active ownership**.

The Principles for Responsible Investment (PRI) defines active ownership as the 'use of the rights and position of ownership to influence the activities or behaviour of investee companies', that is to say, the use of ESG engagement and proxy voting.

Regardless of how an investor chooses to own an asset, ownership is ultimately an undertaking to knowing a company's business, and how the company is positioned for growth is essential to understanding its sustainability over the long term.

This was truer than ever in 2020 as businesses found ways to help their stakeholders deal with multidimensional crises such as COVID that overnight turned the world virtual, forcing individuals, families, communities, organisations, states and markets to interact in ways and on a scale never seen before.

The role of passive and active managers

Both passive (index) and active managers have an important role to play in realising the potential value that thoughtful engagement and proxy voting can create. While large passive managers have the size to influence voting on broad issues, their ability to effect nuanced engagements with companies is likely hindered simply because they own so many companies. Index investors generally have to buy all the companies in the relevant benchmark.

Typically, active managers are better positioned to look into businesses, industry operations and management. They use all the available information, including non-financial information (which is becoming increasingly mandated), to determine what will have a material impact on those businesses.

If they do not know the business well enough, they cannot tell the difference between one that is sustainable and socially responsible or not. Nor are they able to effectively challenge company management on how to deal with ESG risks and take advantage of ESG opportunities.

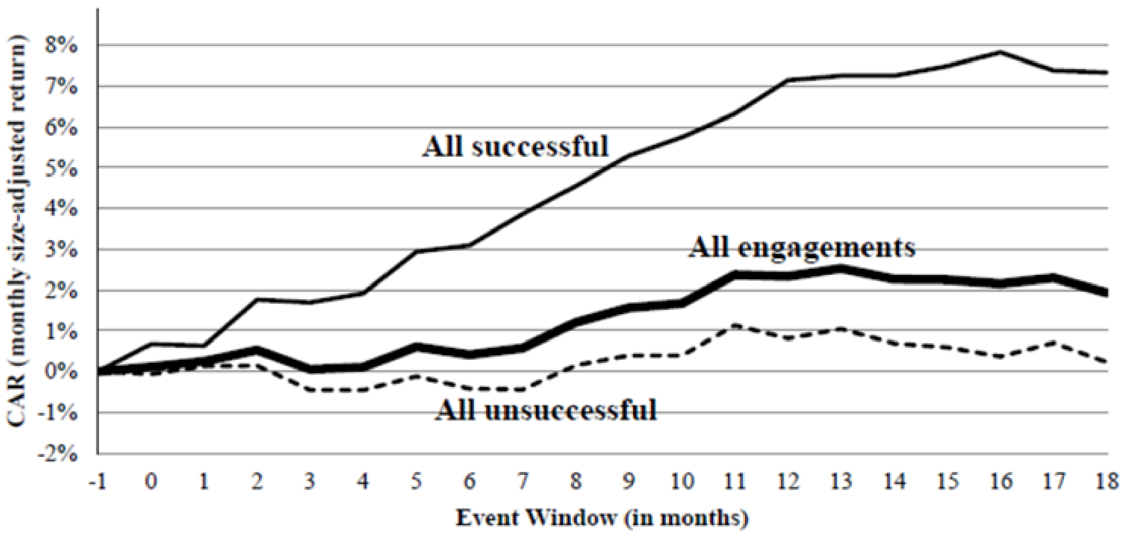
Active investors with deep research capabilities are able to perform 'materiality discovery' similar to price discovery and engage in a sustained way with investee companies to instigate change.

Research from Cambridge University shows that:

"ESG engagements generate cumulative size-adjusted abnormal return of +2.3% over the following year on the initial engagement. Cumulative abnormal returns are much higher for successful engagements (+7.1%)."

The research found no market reaction to unsuccessful engagements.

Active Ownership: Successful engagements +7.1% (see notes in comments)



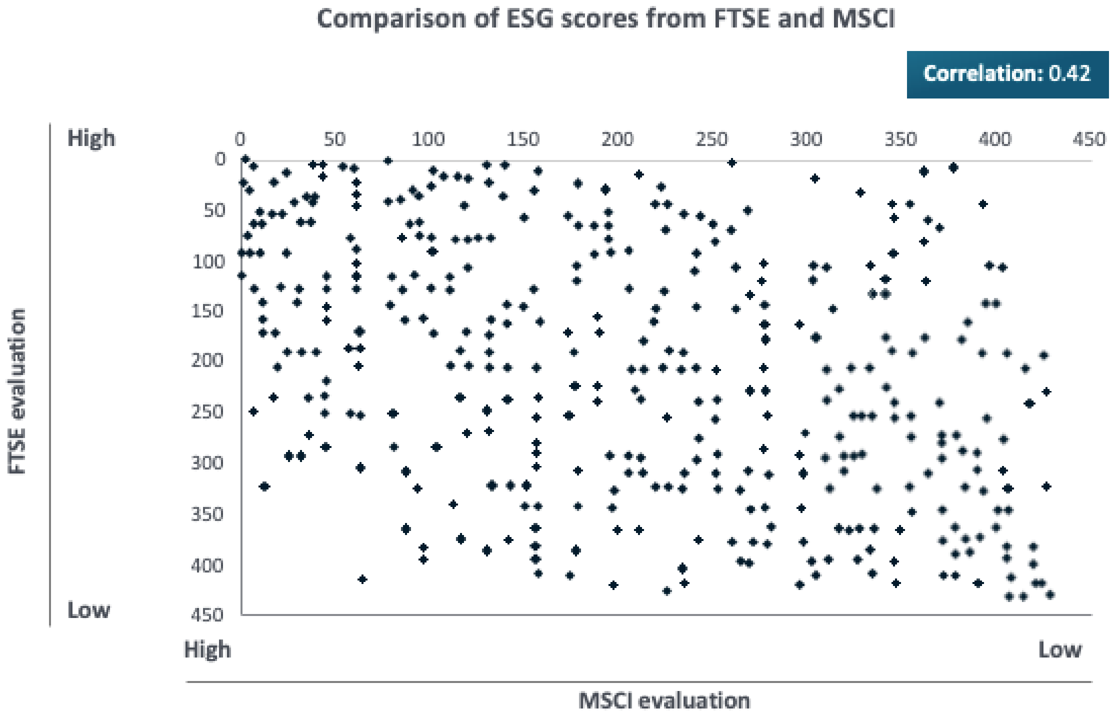
Investment organisations that manage sustainable investing through ESG integration, proxy voting and engagement are more likely to create sustainable value over the long term.

In addition, these active ownership attributes improve their ability to achieve their client's objectives and meet their fiduciary responsibilities. We have yet to be convinced that offering products with ESG screens or overlays can do the same, perhaps it ticks a short-term box, but true long-term stewards should demand more.

ESG risk assessment a blunt tool

In our experience, investors want to know what longer-term, sustained improvement in the relevant ESG areas a company has made. Whilst we understand why transparency and measurement is important, we caution against an over reliance on narrow or blunt measurement tools, which cannot be expected to capture the nuance and range of the ESG risks faced by, and opportunities available to, companies.

The chaos in the marketplace in relation to assessing companies for ESG is well illustrated below. The world's largest rating agencies, FTSE and MSCI, are virtually uncorrelated when it comes to ESG materiality. This creates an opportunity for managers such as MFS to engage with clients on how the criteria that we, ourselves, have been building can potentially drive long-term performance on their behalf.



ESG must include active ownership

Client alignment is at the heart of active ownership, so a critical part of the ESG discussion is to understand whether your investment manager is aligned with your views and how sustainability is factored into the investment process undertaken.

Active ownership will become a necessity and the norm for all managers, both active and passive. There is a chance that that passive owners, not passive managers, will get punished if they do not use their voting power to build more sustainable practices at companies.

At a time when we are facing more pressure and complexity than ever before, the managers who survive will be those that align with their clients' long-term needs and support the transition to a more sustainable society. This philosophy fuels our beliefs as an active manager.

Marian Poirier is Senior Managing Director, Australia for MFS Investment Management. The views expressed are those of the author(s) and are subject to change at any time. These views are for informational purposes only and should not be relied upon as a recommendation to purchase any security or as a solicitation or investment advice. No forecasts can be guaranteed. This article is issued in Australia by MFS International Australia Pty Ltd (ABN 68 607 579 537, AFSL 485343), a sponsor of Firstlinks.

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The outlook for gold in a post COVID world

Jordan Eliseo

Gold investors enjoyed another solid year of gains in 2020, as a multitude of investment tailwinds saw the precious metal increase by 25% and 14% in USD and AUD terms. It again outperformed most mainstream asset classes and acted to mitigate overall portfolio losses during Q1 when equity markets were particularly vulnerable.

The gold price also hit new all-time highs in nominal terms last year, trading above US$2,050 and A$2,800 per troy ounce (oz) in August, before undergoing a textbook correction by the end of November.

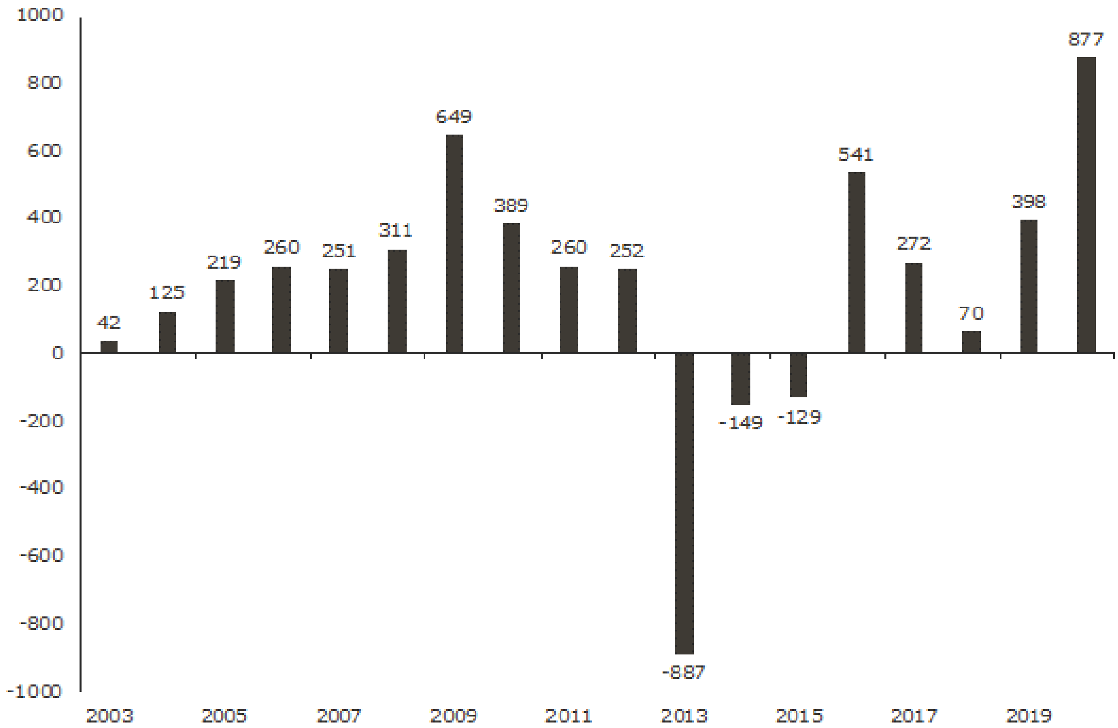
The precious metal finished 2020 on a positive note, rising by almost 7% in December (USD terms) to end the year trading at US$1,891 and A$2,455 per oz.

Gold ETF inflows smashed records last year

From a demand perspective, the highlight of 2020 was the inflows seen into gold ETFs globally. Total holdings increased by more than 30%, and ended 2020 at 3,751 tonnes, with these holdings worth more than US$228 billion.

Across the entire year, more than 875 tonnes of gold were purchased through these vehicles, a level of demand that comprehensively broke previous records. This can be seen in the chart below, which plots annual demand across every calendar year from 2003 onward.

Chart: Net inflows (tonnes) into gold ETFs by calendar year



Source: World Gold Council

From a dollar perspective, flows into gold ETFs in 2020 were even more impressive, with almost US$48 billion invested last year. That is approximately two and a half times the amount invested in 2009 and 2016, which were both historically strong years for investment demand.

Australian investors were very much at the forefront of the increase in demand for gold ETFs last year, with total holdings in ASX-listed gold ETFs rising by more than 65%. That is more than double the rate of growth seen globally, and includes inflows into Perth Mint Gold (ASX:PMGOLD), which saw its market value almost double from $292 million to $580 million in 2020.

Overall gold demand soft in 2020

Despite the huge flows into gold ETFs, overall demand for the precious metal was relatively modest, with key consumer markets like India and China seeing sharp reductions in purchasing. This was due to the record high prices, as well as the impact of COVID-19, with disposable incomes severely impacted.

By Q3 2020, jewellery demand was 30% lower than levels seen in 2019, whilst end-of-year data for 2020 (not available at the time of publication) may indicate that total demand levels dropped by up to 50% last year.

Central bank demand also fell, with best estimates suggesting net purchases fell by as much as 50% last year. It must be noted though that this demand is in comparison to the five-decade highs seen in 2018 and 2019.

Outlook for gold in 2021

After a record run in 2020, there are some potential headwinds for gold. The first of these is the fate of the USD. Since late March 2020, the US dollar has fallen by more than 12% (DXY index), with speculative positioning relatively stretched by the end of 2020.

If the USD losing streak comes to an end soon, the gold price may pull back in the short-term, though for Australian investors it would likely be less of an issue as the AUD would also be under pressure in these circumstances.

Strength in equity markets, coupled with rising optimism regarding the incoming Biden administration, are also headwinds for precious metals in the short-term, with gold's weakness over the past fortnight coinciding with Democrat victories in the Georgia Senate election runoff.

History would suggest the market will end up seeing these political developments as gold bullish, with the precious metal historically performing best (with average annual returns +20% in USD terms) when Congress is controlled by the Democratic party, as it will be going forward.

Other tailwinds that are relevant to the outlook for gold include:

- **Rising inflation expectations**
  The US five-year forward inflation expectation rate ended 2020 at 2.03%. That is higher than the end of 2019, and an increase of more than 1.10% since inflation expectations plunged during March 2020.

- **Record low yields**
  By the end of 2020 only 15% of all global bond markets had a yield above 2%, with most government bonds now yielding less than inflation rates.

- **Outlook for monetary policy**
  Central Banks have been clear that more monetary stimulus will be forthcoming in 2021 and beyond, with cash rates unlikely to move higher for years to come.

Gold stands to benefit from this backdrop of already low to negative real yields and potentially higher inflation, especially given it has historically increased by approximately 20% per annum in AUD terms in years where real cash rates were 2% or lower, where they are today.

The fallout from COVID-19 remains an X-factor for gold, and indeed for financial markets as a whole. Whilst everyone hopes that we have seen the worst, and that 2021 marks the beginning of a 'post COVID' world, there are no guarantees.

Mutations are beginning to develop, whilst meaningful parts of the global economy remain locked down. Even the best-case scenario, which would see a successful rollout of vaccines around the world, represents an enormous logistical and political challenge, with global economic output unlikely to catch up to its pre COVID-19 trajectory for years.

Markets are pricing in a best-case scenario right now. If the situation deteriorates, expect risk assets to suffer, policy makers to deploy even more stimulus, and safe haven assets like gold to catch a bid.

Combined, these potential tailwinds indicate that gold prices are likely to remain biased to the upside for some time to come. Most importantly, from a portfolio management perspective, the precious metal offers unique diversification benefits to investors, which should see investment flows supported in 2021 and beyond.

Jordan Eliseo is Manager of Listed Products and Investment Research at The Perth Mint, a sponsor of Firstlinks. The information in this article is general information only and should not be taken as constituting professional advice from The Perth Mint. You should consider seeking independent financial advice to check how the information in this article relates to your unique circumstances.

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Cut it out … millionaires are not wealthy

Warren Bird

The practice of referring to very wealthy folk as 'millionaires' began back in the 1700s. It remains a shorthand way of saying that someone is really loaded. Even recently, the headlines about Peter Freedman's generous $5 million donation to the Sydney Festival often referred to him as a 'millionaire'.

The term turns up often during talk about retirement incomes, pensions, taxation, franking credits and the like. For instance, one frequently reads an argument that says, 'future taxpayers cannot fund pensions for millionaires.' Or words to that effect.

This has to stop

The premise of statements like these is false. It presumes that if you're a millionaire you are very wealthy. The implication, therefore, is that you are greedy if you have $1 million in assets and think you should receive any tax concessions.

Of course, there is a degree of wealth that, in any fair society that values equitable outcomes, will mean that reduced tax rates are not appropriate and shouldn't be given. My point in this article is that this point on the spectrum is NOT as low as $1 million. It's somewhat higher than that, but we need to stop thinking of someone who, at the time of their retirement, has accumulated $1 million in investment assets, as being very wealthy.

Don't get me wrong, they're not poor, but they're not rich either. To think that they are is simply outdated.

Let me tell you a story of a man named Jed. He was a poor mountaineer who barely kept his family fed. Most of you know what I'm talking about, I'm sure. In the 1960s there was a popular comedy called The Beverly Hillbillies, in which the 'poor mountaineer', Jed Clampett discovered oil on his property. The next thing you know old Jed's – you guessed it - a millionaire. The family left the remote country to live in Beverly Hills. The Clampetts didn't change their lifestyle even though they lived in a mansion and were one of the best customers of the local bank. The humour of the culture clash between the hillbillies and their neighbours (including banker Drysdale) highlighted the gulf that existed between ordinary folk and millionaires.

We have well and truly moved on

But we are no longer in the 1960s, let alone the 1700s. By the 1970s, financially literate people started to realise that those who used to be called 'millionaires' were now actually worth tens of millions. The term 'multi-millionaire' came into vogue, and is a more appropriate short-hand for 'very wealthy'. (And it should be used for the generous Mr Freedman who has a net worth in the hundreds of millions of dollars.)

This is largely because of inflation. $1 million today simply can't buy the lifestyle that it could when old Jed struck it rich. In fact, it couldn't even then – the fictional Jed Clampett actually became a multi-millionaire, with a net worth of something north of US$25 million in 1962 dollars. He couldn't have bought the house he lived in if he had much less than that!

Let's put this into perspective:

- Inflation means that to purchase the basket of goods and services that you could with the equivalent of A$1 million in the early 1960s you now need $15 million.
- Back then, $1 million was 385 times average annual earnings, but now it's only 17 times average annual earnings.
- In 1960, you could invest your $1 million in bank deposits paying 3% and earn as much interest in one year as it would take the average worker 12 years to be paid. Now, investing $1 million at 3% earns you half a year's worth of average earnings. (And that says nothing about investing at 2020's interest rates!)

Quite simply, the wide gulf between ordinary folk and millionaires no longer exists because being a millionaire does not make you wealthy! If invested wisely so that you earn better than bank deposits, it can make you comfortable, giving you in retirement an income that keeps you in the ballpark of the average working Australian.

Fortunately, the government understands this. That's why the cap that the Government introduced a couple of years ago for the tax-free earnings base for super in pension phase was at $1.6 million. That amount invested conservatively makes someone's retirement income about the same as average earnings. (Or it did at the time – now the investment strategy needs to be somewhat higher risk, with interest rates falling to current extremely low levels since then.)

It's time to cut out the millionaire references

So can we please stop bleating about tax levels for self-funded retirees who invest the cap or less as if being a 'millionaire' in 2021 means you could dine from a 'fancy eatin' table' in the pool room of your 10-bedroom mansion!

Yes, accumulating $1 million to invest for retirement is a stretch, if not impossible, for a lot of people. But policy needs to be based upon reality, not upon an emotive notion recalling when the concept of 'the millionaire' referred to only a handful of privileged people.

By the way, the mansion that was used as the Clampett's home in the TV series sold a year or two back for $350 million. Can I rest my case now?

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The pivotal fight between China and the US

Michael Collins

Japan's Kioxia Holdings, which in the early 1980s invented flash memory computer chips, was set for one of the country's biggest initial public offers for 2020. In September, however, the semiconductor maker reduced the asking price of its offer by 25%. Days later, the company postponed indefinitely a float that was initially set to value the company at US$16 billion. Kioxia's CEO blamed the IPO suspension on "market volatility". Given that at the time the Nikkei 225 Index was close to its highest in three decades, that explanation didn't wash.

Everyone knew why Kioxia halted its IPO. Anonymously-sourced media reports had warned Kioxia would abandon its float because China-US tensions were reducing the company's profitability. Of note for Kioxia's fortunes, the US in August decreed that non-US companies would need Washington's permission to sell microchips made using US technology to Chinese telco Huawei Technologies and its affiliates. The talk was that Washington's restrictions on Huawei would cost Kioxia sales and lead to a global glut and thus lower prices for flash-memory products.

The pivotal microchip battleground

The US restrictions on Huawei sting because China makes less-advanced microchips and relies on more-advanced US supplies. China is aware its inferior chipmakers make the country vulnerable amid the 'decoupling' between China and the US that is centred on technology. Beijing thus intends to become the best and self-sufficient in the pivotal microchip industry.

Microchips form the key battleground in the rivalry between Beijing and Washington because the integrated circuit – a piece of silicon that contains nanoscopic electronic circuits – ranks with the internal combustion engine and electricity as an invention of consequence for everyday life.

As Beijing and Washington see it, the country with the best 'brains of computers' will dominate biotech, business, cyberwarfare, economic, military and other fields. Both will mobilise vast financial and political resources to ensure their microelectronics industry is the world's best – and China is behind in production facilities and technical know-how in this US-private-sector-dominated industry.

Risks on both sides, and for everyone else

A microchip industry split on Sino-US lines decades after the industry established global production networks, however, will come with costs and risks for both countries and the world. For US and allied companies, lost sales to China, reduced economies of scale and lower prices mean reduced profits, less research, and fewer advances in chip technology.

The risk for the US is that the country will lose its commercial and military edge in chips that are heading into their third generation of semiconductor materials.

China's decision to elevate microchip self-sufficiency and excellence to a national priority means that billions of dollars are destined to be spent to ensure China has the best semiconductors. The cost of this, in theory at least, is that resources are being diverted from elsewhere.

Chinese businesses and consumers could face higher-priced chips than otherwise, and these might still be inferior to foreign peers. The overarching risk for China is that in pursuing self-sufficiency Beijing is turning towards protectionism and government direction as an economic development model.

For the world, the cost of the microchip wars could entail slowed advances in almost every field, which spells opportunities and wealth forgone. Increased tensions between the world's biggest powers over this tiny technology could change the global balance of power and might turn their rivalry into hostility, perhaps over Taiwan, the world's biggest source of made-to-order chips. China, the US and the world would be better off if the microchip war was toned down.

The competition over microchips could, of course, lead to advancements that help the world. The battle over chips has been simmering for a while with little harm done seemingly. The US is granting exceptions to its microchip bans to Huawei's smartphone business, so maybe the chip wars will be a phony confrontation. Chinese companies are said to be sitting on vast stockpiles of US production inventories so the sting of the US actions might be delayed, and Sino-US rivalry might settle down.

If the chip war were protracted and heated, the costs of the contest could be mostly hidden for society at large. Few people would be able to quantify lost advancements, reduced capabilities, higher costs than otherwise, lower speeds than otherwise and unknown alternatives forgone.

So why worry?

Because regions vying for self-sufficiency in semiconductors is a recipe for disrupting the global microchip industry at a time when ageing and depopulating western societies with debt-ridden economies need all the productivity boosts they can get. And, as the experience of Japan's Kioxia shows, it could be a lesser world as China and the US fight to dominate a world defined in nanometres.

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How fund managers should focus on investors in 2021

Carden Calder

At a recent panel hosted by BlueChip Communication, industry specialists from funds management, venture capital and marketing came together to discuss the challenges facing fund managers and superannuation funds in 2021 and beyond. Specifically, how to grow funds under management in a COVID-19 disrupted Australia.

Joanna Davison, CEO of the Fund Executives Association (FEAL) chaired the panel, which was made up of myself, Tim Samway from Hyperion Asset Management, Ben Chong from Right Click Capital and Victoria Turner from Blueturn Consulting. You can read more about the panel here.

Joanna Davison: FEAL - A changed landscape with new challenges

Joanna began by raising some of the challenges facing the industry as a whole – how the financial services landscape has changed for investment managers and superannuation funds and what the keys to success are. We're heading into a tough and different environment for superannuation funds, and the challenges for investment managers targeting these funds will be significant.

Joanna listed six themes she believes will influence the sector moving forward.

- Increased pressure on fees **-** Funds are facing pressure to perform against league tables and increased scrutiny, including ranking by returns net of fees will continue to encourage consolidation. Times will be tough for benchmark-aware (including index) funds, because their sole point of differentiation will be fees.
- Demonstrating performance will therefore become more difficult for some funds, and as a result, funds will re-allocate budgets from listed to unlisted opportunities and move towards internalising operations. Passive funds are attractive from a fee perspective, but those managers which deliver alpha from active management (and a differentiated product) will arguably have more success.
- Alternatives will become more attractive because they are hard to replicate. There will be a switch from listed to unlisted assets – but investors need to be patient. A 3-5-year timeframe will be the norm.
- Flexibility will be rewarded which means being at the forefront of technology which can provide access to portfolio managers, and bypass intermediaries.
- ESG is now a given – it must be part of the process, not just an overlay. And the expectation is that fund managers and super funds can actively demonstrate what they are doing.
- Education is key – the silver lining of the early release scheme is that members are more engaged. It has reminded members that their super is their money so there is an opportunity now to reach out to members and lock in that increased engagement through education.

Tim Samway: Hyperion Asset Management - How do you build trust when you can't shake hands (or have a coffee together)?

Tim started by saying that building trust is like magic, it happens best in person, and takes time. It's a face-to-face activity, and even with the ability to deal face-to-face, some mandates take 10-years of relationship building before someone entrusts you with their money.

Technology has made the change to work from home and online interaction preferable and permanent for some people. There are some upsides for all of us as we are all much better at lots of technology we haven't used before.

The challenge however is that there is a big difference between reaching out to people you already know and have met face-to-face to keep a connection going, compared with creating the connection.

Other major issues include:

- Massive inter-generational wealth transfer is about to come hit the market, in fact it's already started, and the younger (soon to be richer) recipients of the baby boomers' fortunes have a very different view of the responsibility of fund managers to change the world.
- ESG - 5 to 10 years ago no one was talking about ESG in the first five minutes of a meeting, now they are, and young rich people are asking hard questions about what businesses are doing to address challenges like climate change, diversity and inclusion.
- Funds management is a scale game – there are no barriers to entry, but the barriers to success are huge, including governance, compliance, due diligence to operating procedures, ratings, platforms. The path to success is increasingly difficult.
- Fees are under pressure but consistent performance can mitigate that pressure – institutional clients focus on outcomes, not on fees. Hyperion is never questioned on fees. A differentiated product which offers good outcomes should be the focus, and this is a product which financial advisers will also back.
- Distribution is still important. Great performance is only half the story and distribution is the second half.

Carden Calder: BlueChip Communication - How do you profile, position and protect your reputation in 2021?

- Share your Intellectual Property (IP) until it hurts. Clients often believe that their investment process is proprietary, but in many cases, it isn't. It's the same process that other funds managers use. Open communication and transparency are key to building trust, so taking the leap of faith and sharing is important.
- Find new stories that resonate with clients, because that's what building trust takes. These stories must be defined through the eyes and ears of your end-user, not your star fund manager or your own.
- People are more engaged online than ever before, so seize the day, it can't last. Prior to the pandemic, technology was driving more interaction online, and COVID-19 has absolutely accelerated that process. Engagement is high now, your audience is bigger, and the cost of reaching out to them is lower.
- Find new ways to stand out with a strong narrative and a differentiated offer, for example the way that private equity is now marketing to family offices.
- Reputation risk is not lining up with investor expectations.

Ben Chong: RightClick Capital - Attracting FUM as a lean start-up

- Too much money isn't necessarily a good thing because the more you have, the more difficult it can be to achieve the returns expected, so taking large institutional mandates can pose problems.
- Super funds have been creative in how they reduce fees. They invest a certain amount at a certain fee level, and then co-invest as a partner on a separate fee basis, to achieve an average fee level which is acceptable.
- Venture capital is high touch, it takes a lot of time. Clients are looking at innovative ways to lower average fees over the life of the investment.
- Education is necessary now, given some of the more experienced fund managers were burnt in 2000 and 2001 and they don't want to touch venture capital – so part of our job is to educate them about how to measure success.
- Consistency is key and getting the message out there relies on repetition of a consistent message.

Victoria Turner: Blueturn Consulting - How media business models have changed

Funds management hasn't gone on the digital journey yet. The lessons in other industries such as media include:

- Moving away from giving content for free to building a subscription business where people pay and stay.
- Digital should be central to the proposition, not a separate offering.
- Make advertising as targeted as possible, focus on outcomes not transactions which are by their nature short-term.

What are the opportunities?

- Make digital marketing core to what you do. Develop a customer relationship strategy which nurtures current and potential investors to the point of purchase through content.
- Use technology to remove friction to make it easier to invest, which means you need to fully understand the path to purchase.

Carden Calder is Managing Director and Founder of [BlueChip Communication](#).

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