Firstlinks
a Morningstar company

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Editorial

According to music scholars, **Beethoven** became more original and brilliant as his hearing deteriorated late in his life. He could not hear the music of either himself or others, and so became less influenced by the external 'noise'. The clarity and creativity of his music formed inside his head, and he no longer listened to and relied on the soundtrack of others.

Good investing is similar. Each person needs to establish a portfolio that suits their circumstances and goals, and most would benefit from drowning out the noise. Set up a diversified mix with quality assets and let them perform over time, rather than reacting to the daily news. **Warren Buffett** made a clear distinction between investing and speculating, and it helps him remain calm when others are panicking. He said:

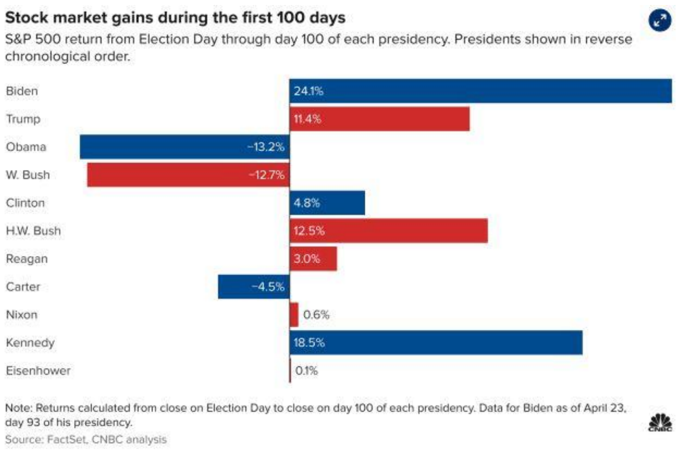
"All investment is, is laying out some money now to get more money back in the future. Now, there's two ways of looking at the getting the money back. One is from what the asset itself will produce. That's investment. One is from what somebody else will pay you for it later on, irrespective of what the asset produces, and I call that speculation. So, if you are looking to the asset itself, you don't care about the quote because the asset is going to produce the money for you."

We start this week with **David Booth**, who founded **Dimensional** on the investment principles of Nobel laureates. He describes the five main lessons he has learned from many decades in investing, with especially good advice on living with uncertainty.

Andrew Mitchell also says investors must look at the long term when selecting fund managers, and he provides evidence that all top-performing managers over 10 years have periods of underperformance. Don't bail out at the wrong moment.

Roger Montgomery reveals the major themes attracting his attention for further stockmarket gains, as he expects equities to perform well in 2021.

Which is what has happened in the early days of **President Joe Biden**. Among many claims and untruths that **Donald Trump** uttered during his presidency, he told his followers during the Presidential Debate that (pointing to Biden): "*If he's elected, the stockmarket will crash.*" Well, we now know the market has loved the trillions Biden has spent, even in the face of possible higher taxes. Here are the first 100 days of the S&P 500 of each recent President.



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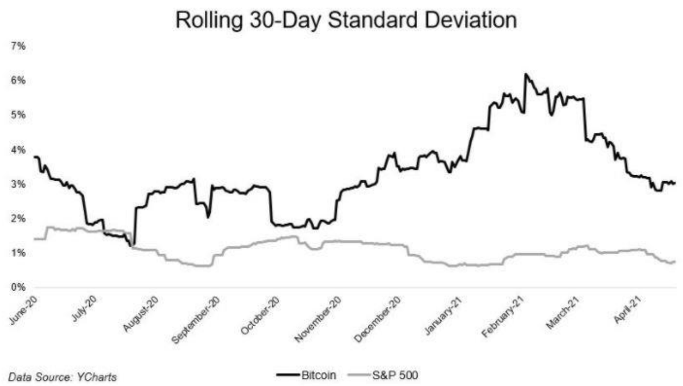
Several readers have asked why we do not publish more articles on cryptocurrencies and Bitcoin. It's partly because I don't believe such a volatile and hard-to-value asset is suitable for the portfolios of most of our readers, but maybe that's living in the past. I have never watched *Married at First Sight*, the most popular television programme in Australia, or posted on TikTok, so maybe I'm a dinosaur. We asked **Citibank** as a global house to provide its view, and **Rich Welby and Sandy Kaul** obliged with 10 quick observations. This level of monthly (not annual) volatility sits uncomfortably for most people.



One threat to the rising stockmarket is inflation, although the latest CPI issued yesterday rose only 0.6% in Q1 2021. It was below consensus expectations giving an annual rate of headline inflation of 1.1%. However, **Chris Joye of Coolabah** wrote this week:

"Our key conclusion is that a material jump in inflation expectations would result in sharply higher interest rates and a large fall in stock prices. The process starts with tighter monetary policy to bring inflation under control, with the Fed's cash rate climbing by almost 2.5% (from near-zero today). Persistence in sticky inflation expectations and tighter monetary policy settings drives a big, 1.5% rise in the 10 year government bond yield. Higher discount rates hurt stock prices, which decline by about 15% over the next 3 to 4 years in real, or inflation-adjusted, terms."

Chris has a solid track record, especially his recent calls on residential property prices, so his warning is worth noting.

Stephen Miller takes a wider view, critical that we expect the RBA to do so much of the heavy-lifting through monetary policy and interest rates, when a range of microeconomic reforms are ignored.

Finally, a change of pace with a look at the **European Super League**, which received extensive media coverage in Australia last week, including in the financial press. Yet there is a serious lack of coverage of the **A-League** despite the high-quality product. You don't need **Messi and Ronaldo** for a great football experience, so why are the local crowds so poor? I never miss a **Sydney FC** game, with thanks to **David Traktovenko**.

Briefly on superannuation, the Treasurer **Josh Frydenberg** has announced changes to the Your Future Your Super (YFYS) regulations and a new consultation period. Two criticisms have been addressed:

"Administration fees will be included in the performance test, ensuring that the test focuses on the final member outcome and is consistent with information presented to consumers on the online YourSuper comparison tool.

The Government has also added Australian unlisted infrastructure and unlisted property as specific asset classes covered by the performance test."

Many gems in reader comments last week, especially on the Buffett and Ralston articles. The **Comment of the Week** comes from **Kevin**:

"I'm in the long term buy and hold camp too. The compounding is amazing. Mine is mainly the banks for decades. The dividends now after using DRP plans for decades are very high and produce an excellent income. Throw in Wesfarmers held for around 22 years now and things are great. For some reason people seem to have great difficulty doing nothing at all, just leave things alone to grow. The volatility is a price to pay. I have always thought the very small number of shares that change hands every day are taken too seriously. Have a look at prices once or twice a year."

This week's White Paper from **First Sentier Investors** looks at the case for making a structural allocation to high quality credit within a diversified investment portfolio.

Five timeless lessons from a life in investing

David Booth

US businessman, investor and philanthropist David Booth, who founded global asset management firm Dimensional Fund Advisors 40 years ago, has brought together five timeless lessons from his decades in the finance industry. Dimensional, which manages about $850 billion globally, is closely linked to several Nobel laureates in economics, including Merton Miller, Eugene Fama, Robert Merton and Myron Scholes. Here are his five lessons for investors.

Lesson 1: Gambling is not investing, and investing is not gambling

Gambling is a short-term bet. If you treat the market like a casino, and you're picking stocks or timing the market, you need to be right twice - in an aim to buy low and sell high. Professor Fama showed that it's unlikely for any individual to be able to pick the right stock at the right time, especially more than once.

Investing, on the other hand, is long term. While all investments have risk, there are things you can do as a long-term investor to manage those risks and be prepared. As Nobel laureate Merton Miller said, "Diversification is your buddy." Investing is buying a little bit of almost every company and holding them for a long time. The only bet you're making is on human ingenuity to find productive solutions to the world's problems.

Lesson 2: Embrace uncertainty

Over the past 100 years, the US stock market, as measured by the S&P 500, has returned a little over 10% on average per year but hardly ever close to 10% in any given year. The same is true of dozens of other markets around the world that have delivered strong long-term average returns.

Stock market behaviour is uncertain, just like most things in our lives. None of us can make uncertainty disappear but dealing thoughtfully with uncertainty can make a huge difference in our investment returns, and even more importantly, our quality of life.

The way to deal with uncertainty is to prepare for it. Without uncertainty, there would be no opportunity to do better than a relatively riskless return like that from a money market fund. We always emphasise that risk and expected returns are related, which means you can't have more of one without more of the other. Make the best-informed choices you can, then monitor performance and make portfolio adjustments as necessary.

Come up with a plan to get back on track in case things don't go as expected. And remember, you can't control markets, so don't blame yourself for results outside your control. Try to relax knowing you've made the best-informed choices you can. A trusted financial adviser, a fiduciary who puts your interests first can help you cultivate this sort of discipline and long-term perspective.

Lesson 3: Implementation is the art of financial science

I was compelled to approach investing differently by the research Fama and other leading academics were doing to better understand markets and returns. There's general agreement on what financial science tells us, yet so much can be gained or lost in application. Just as some sports teams can consistently execute their strategies better than others, investment professionals can consistently add value by dealing better with market mechanics.

Bob Merton and Myron Scholes were recognised as Nobel laureates for their options-pricing model, which shows that flexibility has value. Great implementation requires paying attention to detail, applying judgment, and being flexible.

Lesson 4: Tune out the noise

If an investment sounds too good to be true, it probably is. When people ask me if I'm investing in the latest shiny investment idea, I tell them, "*If I don't understand something, I don't invest in it.*" That's because I've seen a lot of fads come and go.

TV pundits handing out stock tips? Friends letting friends in on their next big investment? I see these more as entertainment than information.

Stress is induced when people think that they can time markets or find the next winning stock, or that they can hire people who can. There is no compelling evidence that professional stock pickers can consistently beat the markets. Even after one outperforms, it's difficult to determine whether a manager was skilful or lucky.

The good news is you can still do well without having to find what markets might have missed. While markets are unpredictable and may even seem chaotic at times, they have an underlying order. Buyers and sellers come together and trade, which is the activity that sets market prices. Unless each side agrees to a price, they don’t trade.

New information and expectations about returns are quickly incorporated. Consistently finding big winners is difficult, but everybody can have access to the expected returns that a diversified, low-cost portfolio can generate.

Lesson 5: Have a philosophy you can stick with

It can be difficult to stay the investment course during periods of extreme market volatility. At the end of March 2020, the S&P 500 was down nearly 20% for the year. Record amounts of money exited from equity mutual funds and went into money market accounts. Those investors who stayed out of the equity market missed out on the subsequent 56% gain in the S&P 500 over the next 12 months. We will all remember 2020 for the rest of our lives. It serves as an example of how important it is to maintain discipline and stick to your plan.

By learning to embrace uncertainty, you can also focus more on controlling what you can control. You can make an impact on how much you earn, how much you spend, how much you save, and how much risk you take. This is where a professional you trust can really help. Discipline applied over a lifetime can have a powerful impact.

David Booth founded global asset management firm Dimensional Fund Advisors 40 years ago this year. He was a Research Assistant at the University of Chicago Graduate School of Business, which was renamed the Booth School in 2008 after a $300 million pledge from the Booth family.

Four fruitful themes show plenty of juice in the market

Roger Montgomery

In my March column for Firstlinks, I poured cold water on the bearish arguments promulgated by some stock market observers and commentators. Noting the rising influence of companies demonstrating the most extraordinary business economics ever seen, I disabused the Cassandras of their concerns and fanciful notions of imminent doom for equities. Valuations are supported by a hitherto unseen combination of unconventional monetary and fiscal support.

Meanwhile, evidence of burst bubbles in some individual stocks and market sectors last year is proof that bubbles can ferment and collapse without disrupting the entire market. The whole market is not a bubble if Systemically Important Financial Institutions do not hold the assets subject to irrational exuberance.

Conditions in place for a strong year

In summary, 2021 has the potential to be a great year for equities. Since the beginning of the year, the S&P500 is up more than 11%, the NASDAQ 8.5%, and the S&P/ASX200 6% higher.

Meanwhile, the pace of US economic recovery continues to surprise upwards, and central bank balance sheets could continue expanding into next year.

Australia's economic activity has returned sharply to pre-COVID levels, unemployment rates are declining abruptly, and labour markets are improving with the conclusion of JobKeeper forcing many individuals back to work to earn an income.

Over in the United States, last year's stimulus amounted to 10% of GDP, but in 2021, at 20-25% of GDP, this year's stimulus will more than double last year's. Many companies are already reporting their best-ever outlooks, as well as sequential revenue acceleration over recent months.

Lower inflation is structural

All this growth could, of course, produce an inflation surprise in the coming months. And while that could cause some ructions in the market, the central banks have repeatedly explained their willingness to look through interim inflation figures, believing them to be temporary.

Central bank belief in fleeting inflation concurs with our view that lower inflation is structural. Thanks to software and IT advances, the marginal cost of delivering goods and services has permanently shifted lower for many companies. Remember, inflation wasn't a threat before COVID hit, and that was when much higher employment levels existed. Two decades of low inflation suggests a structural change, and that's before we consider currently high household savings.

As Australia's Treasury noted way back in 2011:

"By reducing aggregate demand, higher rates of saving and lower household spending may also reduce pressure on prices and wages and therefore interest rates, while more moderate rates of gearing will reduce households' exposure to negative economic shocks."

It seems unlikely we will see a rapid re-emergence of permanently higher rates of inflation, at least until we see much lower levels of unemployment and perhaps stronger wages growth. Inflation of 2% is unlikely in the absence of at least 2% wages growth.

Plenty of juice left in the market

Despite Australian GDP printing above the RBA's upside scenario for four quarters in a row, some investors believe the recent gains means there's little juice left in this year's equity market returns. We, however, believe value and growth remain available and in plain sight. A residual question therefore is where can preferred opportunities be found?

There are several themes with investment merit.

The **first** is cloud computing, which is a game-changer for business. Only the most prominent companies could afford a dedicated in-house IT department and data storage in years past. The advent of third-party data centres changes the competitive landscape allowing smaller businesses to access enterprise-level technology at a fraction of previously prohibitive prices. Consequently, cloud permits digital transformation while enabling disruption by a multitude of companies for which IT was once a barrier to entry. And according to some estimates, penetration of enterprise-level cloud adoption is about 25%. That is where smartphone penetration was 12 years ago and where laptop penetration was nearly 20 years ago.

Low current penetration statistics suggest a long runway for cloud computing growth and far beyond the temporary fillip afforded by Covid lockdowns. We believe these companies are more than merely 'Covid winners'.

A **second** area of opportunity can be labelled 'income'. The search for yield remains heightened and global. Members of pension funds worldwide are struggling on income rates of less than 1% so the demand from their pension funds for assets that produce reliable, if not dull, income streams is acute. Witness, for example Telstra's desire to split off its mobile towers to permit a 'fairer' reflection of their value. Also, note the NSW government's contemplation of a sale of its gambling tax revenue streams.

With rates likely to remain low for some years, ASX listed REITS that offer stable and growing income streams could prove increasingly popular.

A **third** field of opportunity is offered by the roll out globally of a vaccine. While many investors seek to take advantage of first-order beneficiaries such as travel agents and education providers, the second and third-order consequences will be companies taking market share from slower or less nimble operators and consolidation in some sectors with mergers and acquisitions taking advantage of apparent synergies.

We bundle a **fourth** theme under the heading 'stimulus'. Companies that benefit from government support programs such as, for example, the newly extended HomeBuilder grants scheme are obvious candidates here. Less obvious perhaps is that when the Covid pandemic is over, the world will have the luxury of focusing on other concerns such as climate change. Electric vehicles, clean energy, and decarbonisation will take a more prominent role in the headlines than they already are in such a world. Australia, of course, is rich in all the minerals required for the manufacture of lithium batteries, including lithium itself, and the ASX is rich with listed suppliers, developers and explorers.

Australian investors may have many reasons to be very optimistic indeed.

Roger Montgomery is Chairman and Chief Investment Officer at [Montgomery Investment Management](). This article is for general information only and does not consider the circumstances of any individual.

The economy, bond yields and real estate: where to from here?

Adrian Harrington

The past year was one for the record books as the pandemic inflicted synchronised economic impacts across the globe. The economic downturn generated significant challenges in determining the path forward. However, as the year progressed, it was evident this economic recession was different from the GFC, distinguished by the magnitude of the initial downturn but also the speed of the recovery.

The Australian recovery experience

The Australian economy has benefited from strong government fiscal support and the exemplary containment of the virus, resulting in a materially stronger than anticipated economic recovery. In April 2020, consensus GDP forecasts for 2020 ranged between -3.4% and -10.0%. These forecasts strengthened over time, with 2020 growth results finishing the year at a manageable -1.1%.

Perhaps even more remarkable was the recovery across the labour market, with forecasts that the unemployment rate would exceed 10% over the year. It peaked at 7.5% before progressively reducing to the most recent reading of 5.8% in March 2021). This is approximately 0.5% above the pre-pandemic trend of 5.25%, a level most economists didn't expect until 2022. Although many advanced economies shared similar recoveries, Australia's comparative containment of the virus and effective policy support fuelled a shorter downturn and subsequently, a stronger economic recovery.

Source: Koyfin

The economic recovery and bond yields

Given the speed of the economic recovery, the stimulatory government policy support and the further relaxation of government restrictions, forward projections for growth in Australia have been upgraded. These factors and the rebound in commodity prices have increased expectations for inflation, wages and longer-term economic growth. As such, bond yields have now lifted from historically-low levels.

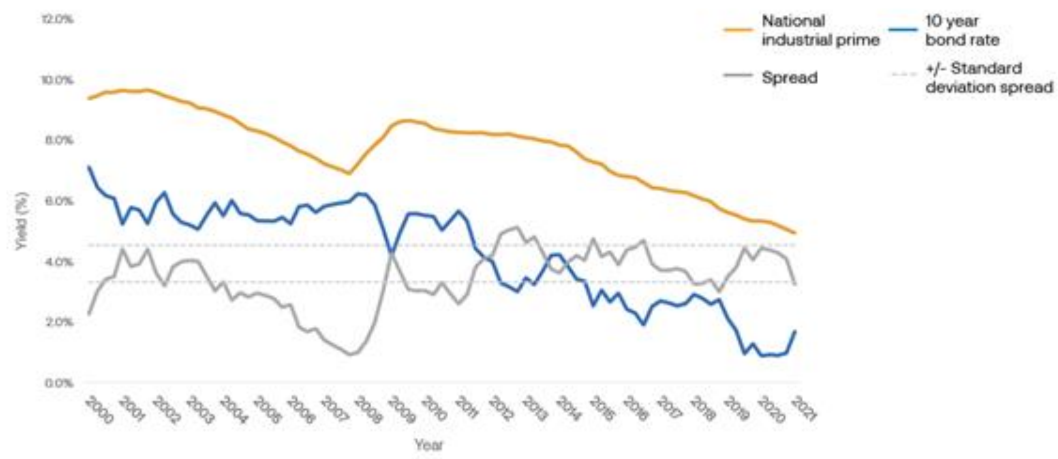
The Reserve Bank has separately suggested that both wage growth and the consumer price index (CPI) could initially show some 'catch up' after slowing sharply during the depths of the pandemic. However, annual inflation is not expected to move within its target range of 2-3% for several years. In response to this relatively good news, over the calendar year 2021, the 10-year bond yield increased from around 1.0% to a high of 1.9% before more recently trading down to approximately 1.7% (at the time of printing).

Bond yields and real estate

The gap between property yields and bond yields is known as the 'risk premium', or the excess yield that can be achieved from investment in commercial property versus the 'risk-free rate' of an investment in a government bond.

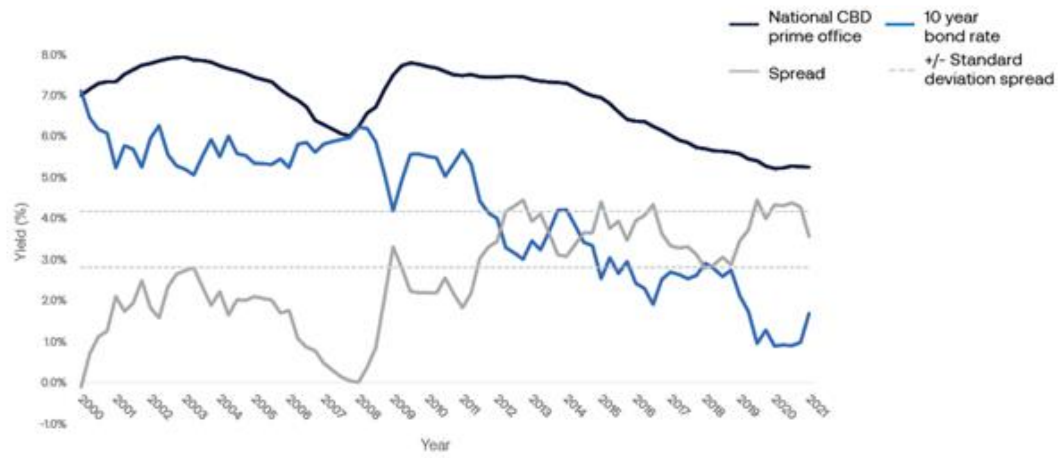
So even though bond yields are increasing (this is known as the 'steepening' of the yield curve), the spread – or the difference between commercial real estate yields and bond yields, remains high – even when compared to historical levels (as illustrated in the office and industrial yield charts below). Based on these measures, this signals limited downside risks to commercial real estate valuations.

Prime industrial yield versus 10-year government bond rates



Industrial spreads have narrowed and approached the lower bound of historical movements. However, given the structural tailwinds, implied risk premiums are being adjusted lower.

Prime office yield versus 10-year government bond rates



Office risk premiums remain within typical historical ranges.

Source: JLL Research, Charter Hall Research

Sector and industry outlook

Assets with long Weighted Average Lease Expiries (WALE) and quality income streams from strong tenants are well placed to absorb any sustained rise in bond yields. Further strength can be found in assets that benefit from leases with fixed annual rental escalations, as this hedges against any significant and sustained increases in inflation.

Average 'risk premiums' should reflect the associated risk and future growth of an investment.

As an example, the discretionary retail and industrial real estate sectors have been experiencing very different structural changes from the rapid growth in online retailing. These trends are being reflected with the two sectors undergoing different 're-ratings': industrial risk premiums are narrowing, while regional and sub-regional retail risk premiums are expanding. The discretionary retail sector can be further compared to non-discretionary retail (think Bunnings, Coles or Woolworths), which have performed strongly over the last year. The average risk premiums for neighbourhood shopping centres that have a majority of non-discretionary retailers as tenants have also been narrowing.

There are several reasons to be positive about the near-term outlook for the Australian economy and the real estate sector. Global and US growth has strengthened significantly, the Australian housing market is in a cyclical upswing, and the drag on the economy generated by Australia's adjustment to lower commodity prices have now passed. In fact, commodity prices have now increased to decade highs, providing a real income boost for the wider economy. These factors are expected to support the momentum already underway across the Australian commercial real estate sectors, in particular for the industrial, non-discretionary retail and social infrastructure sectors.

Adrian Harrington is Head of Capital and Product Development at [Charter Hall](), a sponsor of Firstlinks. This article is for general information and does not consider the circumstances of any investor.

For more articles and papers from Charter Hall, please click [here]().

Dump the short-term churn for better long-term performance

Andrew Mitchell

The goal of equity fund investors should be to identify and stay with top-performing managers over the long term (5-10+ years). Data shows that virtually all long-term top-performing managers have shorter term periods (1-3 years) where they underperform their benchmark, but ditching managers at the first sign of underperformance is likely to be a suboptimal strategy.

Too much focus on the short term

The financial media love to laud or lament short-term investment performance, both good and bad. As an investor, it's easy to get drawn in and mentally extrapolate out recent trends across your portfolio.

But to capture superior long-term results, which is what most investors ultimately aim for, periods of short-term pain must be tolerated.

These short-term swings can be difficult to stomach and will often tempt investors to bail out of the market. However, without being able to accept periods of underperformance, investors may miss the market's inevitable rebound and fail to harvest the long-term superior returns of equities.

If investors can develop a deeper understanding of how top funds perform over time, they will more confidently weather the inevitable periods of short-term volatility in performance, and be more likely to reach their long-term investment goals.

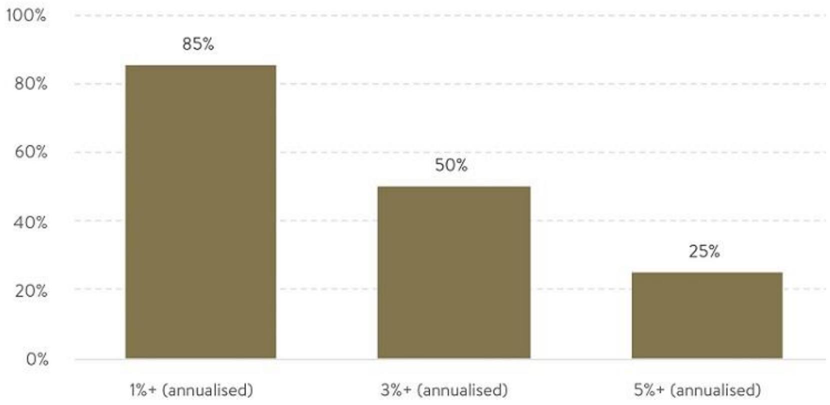
Don't be alarmed

Almost every top-performing fund has instances where it underperforms its benchmark and its peers, particularly over time periods of three years or less.

A study by independent US investment bank, Baird, looked at a group of more than 1,500 funds with 10-year track records. They then narrowed the list to 600 funds that outperformed their respective benchmarks by one percentage point or more, on an annualised basis, over the 10-year period. The list was further narrowed to include only those funds that both outperformed and exhibited less volatility than the market benchmark.

Despite their impressive long-term performance, 85% of these top managers had at least one three-year period in which they underperformed their benchmark by 1% or more. About half of them lagged their benchmarks by 3%, and one-quarter of them fell 5% or more below the benchmark for at least one three-year period.

Percentage of top-performing funds that underperformed over any three-year period



Source: Morningstar, Baird Analysis

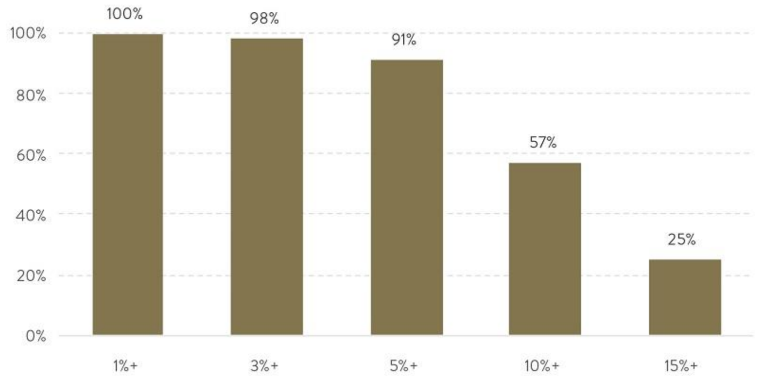
Investors could have been alarmed by these periods of underperformance, yet in the long-run, it paid off to stay with the top performers over a 10-year time span.

It pays to be patient

When looking at shorter periods, the results were even more telling. All the top managers dropped below their benchmark at least once. Moreover, one-quarter of them went through at least one 12-month period where they underperformed their benchmark by 15% or more.

By these measures, all fund managers, including even the best, go through periods of underperformance. It is challenging to know what to do when a fund is in the midst of one of these tough periods but it pays to be patient. The longer an investor can wait, the better their funds' chances of beating its benchmark become.

Percentage of top-performing funds that underperformed over any 12-month period



Source: Morningstar, Baird Analysis

Time diversification

One of the major factors affecting fund performance is the cyclical relationship between asset prices and the business cycle. In the short term, investments can fluctuate in value for a number of reasons, including changes in the economy, volatility, political uncertainty, business failures, interest rate changes, fluctuations in currency values, and company earnings. In an economic downturn, GDP growth slows, and business earnings decline, which leads to less optimistic outlooks for companies and lower stock prices. In an economic expansion, the reverse tends to happen.

But time is an investor's best ally.

As investor holding periods lengthen, short-term risks tend to become less relevant, partly because many short-term price movements tend to offset each other over a complete business cycle. This means that, as an investment's holding period increases (such as 20 years versus five years), investment risk due to market volatility (ups and downs of prices) will decrease. Both the frequency and magnitude of underperformance become less dramatic over more extended periods.

Take an holistic view and reduce the churn

In our opinion, fund manager churn benefits no one, and hence at Ophir, we seek investors who agree with our investment philosophy and appreciate our process. We expect our portfolios to have negative years or underperform their benchmarks on occasions, and we understand that investors may feel uncomfortable through these periods. We prefer not to see investors buy into an Ophir equity fund based solely on a few quarters of strong returns if they are likely to reverse course and sell out when returns fall short.

For example, as seen below, the Ophir Opportunities Fund, which has the longest track record of any Ophir fund at almost nine years, has had two periods of one-year underperformance and one period of three-year underperformance (albeit briefly), yet is the top performer in its class* over the long term, generating 24.6% p.a. (net of fees) since its inception in August 2012.

*Source: Ophir Asset Management. *FE fund data, Australian Small/Mid Caps, Aug 2012 to March 2021*

Investors should remain focused on their long-term financial plan and avoid knee-jerk reactions during times of negative absolute or relative performance. A more holistic view of managers needs to be taken. This includes factors such as long-term track record (if it exists), people, investment process, levels of alignment and adherence to capacity constraints, amongst others.

Andrew Mitchell is Director and Senior Portfolio Manager at Ophir Asset Management. This article is general information and does not consider the circumstances of any investor.

Read more articles and papers from Ophir here.

Super League fascination overlooks the main game in town

Graham Hand

I have never met him, and he's never heard of me, but I'm grateful to David Traktovenko. He's the Russian billionaire who owns Sydney FC. I choose to ignore how he made his vast wealth because each year he writes out a multi-million-dollar cheque to finance the top-quality players and coaches for my favourite football (aka soccer) team. The A-League is my favourite professional sport and I am a Foundation Member of Sydney FC. I have rarely missed a home game in 16 years, and thanks to Mr Traktovenko, the last few years have been enthralling for a SFC fan.

Premierships:	2009-10, 2016-17, 2017-18, 2019-20
Championships:	2006, 2010, 2017, 2019, 2020

Hidden in those statistics are hundreds of hours of great football action watching international players and local talent. Traktovenko lives in St Petersburg and rarely sees his team play, although he has a strong connection to Sydney. He owns a luxury residence in Mosman and his son-in-law, Scott Barlow, is club chairman. Barlow is the founder of property developer STRADA, and recently sold his Point Piper home for about $40 million.

Traktovenko is one of the many club owners who finance A-League teams and are estimated to have spent $300 million since the competition began. Like the entire A-League, Sydney FC is not on a steady financial and popularity rise where the owner is guaranteed a strong future payoff. Anything but.

Australia is the only country in the world where football competes with three other 'football' codes, and two of them, Aussie Rules (AFL) and rugby league (NRL) dominate the media landscape and promotional dollars. Union and football are poor in comparison and there is relatively little exposure for the domestic A-League. It is overshadowed by football clubs from other countries which most fans will never see.

The massive coverage of the European Super League

Even for people who do not follow sport, it was difficult to avoid the coverage of the proposed European Super League last week. Never before has a journalist like Peter FitzSimons, who knows as much about football as I do hieroglyphics, devoted an entire column to soccer. His subject was the European Super League, coverage he would never give to the A-League … or as he would say … whatever that is.


Opinion

Mega money is not the only thing that makes ball go round

The fan revolt against Europe's most powerful football clubs has been something to behold.

1 day ago by Peter FitzSimons

Briefly, a dozen of the strongest clubs in Europe planned to become founding members of a Super League, including Barcelona, Real Madrid, Arsenal, Chelsea, Liverpool, Manchester City, Manchester United, Juventus, AC Milan and Paris Saint-Germain (although notably not Bayern Munich). All have a rich history and millions of fans around the world. Clubs and players would be guaranteed massive minimum payments, bankrolled by JP Morgan, with most revenue coming from global television rights. Instead of the predictable play-off outcomes of the current Champions League, only top-quality clubs would compete, guaranteeing the best teams and players for every game.

Although not totally abandoned, the scheme fell apart quickly following a global outcry by fans. They rebelled against wealthy billionaire owners becoming even wealthier, leaving behind the leagues and teams followed by millions of devoted fans in domestic competitions. The Super League teams would share at least €3.5 billion each year with graded payments, with the top six receiving a minimum of €350 million each year. Meanwhile, in domestic competitions, lower division clubs are facing ruin with games played in empty stadiums.

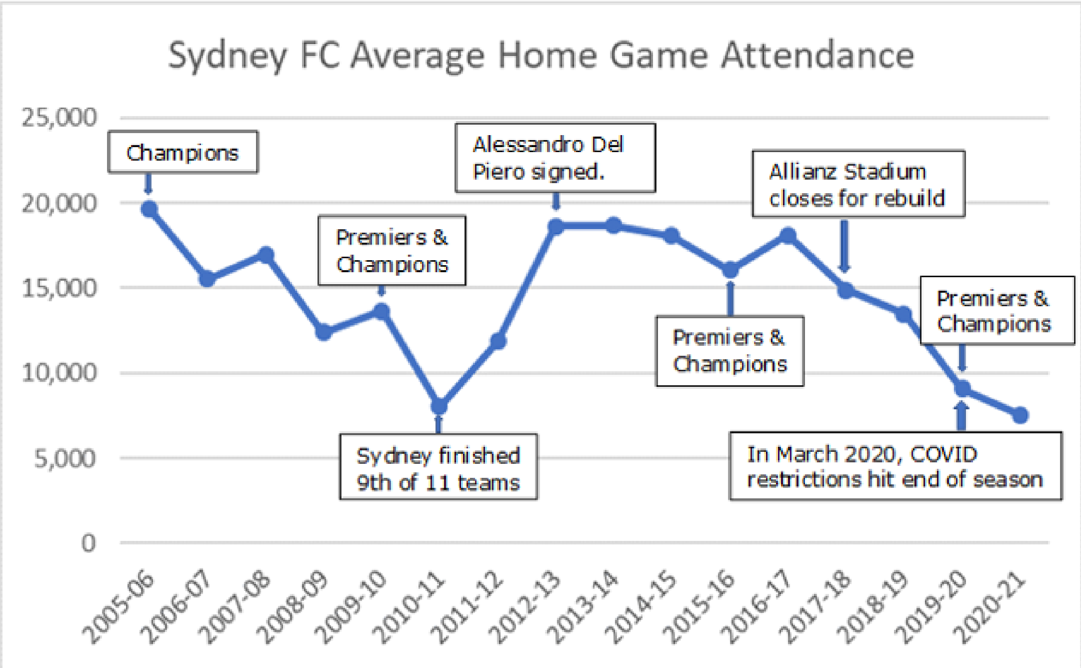
The plan gained the type of Australian exposure the A-League can only dream of, especially when the season overlaps with the AFL and NRL. For example, *The Australian Financial Review*, a newspaper which rarely lowers itself to discuss the A-League, ran 10 articles in three days from 20 to 22 April 2021, such as this and this and this and this and this and this and this and this and this and this. Yes, we get it.

It's difficult to even find the A-League results in some major newspapers. News organisations have removed dedicated football journalists. I have complained to ABC radio that while their announcers gush over the AFL (yes, Fran Kelly and Geraldine Doogue, looking at you), they often ignore football. I am still waiting for a reply. On the day I finished this article, the only reference to football in *The Sydney Morning Herald* was a story on David Beckham's bodyguard. Like, who cares!

Why is such a successful club as Sydney FC poorly followed?

The A-League started in 2005/2006 and Sydney's attendances averaged 19,648. It was a great start. Sydney was crowned champions and star recruit Dwight Yorke not only played well but regularly featured in headlines in all parts of the media. The public exposure was consistent and positive and a strong future for the finances of the club and the league looked assured.

But the crowd average has never been bettered, as shown below.



After that first success, Sydney experienced a few lean years with a revolving door for coaches until a strong year in 2010. There was some crowd recovery, but it was not a convincing turning point. The next year, 2010/2011 was a disaster, and unbelievably, seven clubs including minnows such as Central Coast Mariners and Newcastle enjoyed larger crowds than Sydney. How fickle is the Emerald City! The team played poorly and finished the season in ninth place out of only 11 teams, failing to qualify for the finals.

As annual losses exceeded $7 million, a brave decision was made. For the 2012/2013 season, Sydney signed the biggest name in the history of the league, Italian and Juventus legend Alessandro Del Piero, for $4 million per season. The publicity and exposure paid off, with crowds, memberships and corporate sponsorships rising rapidly as attendances regularly exceeded 20,000. Crowds stayed relatively high and consistent for three to four years, and Sydney was hopeful of breaking even by the end of the 2018 season.

Unfortunately, while ADP graced the field with some sublime skills and plenty of goals, the team itself failed to deliver. Although the results were mediocre during ADP's two seasons, the crowds held up, even into

2014/2015 after he left. By 2016/2017, under Graham Arnold, Sydney had the best season in the history of the A-League, winning the double, conceding only 12 goals in 27 games, topping the league by a record 17 points and led by Brazilian, Bobo, setting new goal-scoring records. When Bobo left, in came another prolific goal scorer, Englishman Adam Le Fondre, and Sydney won the premiership again. It was wonderful to watch.

At this stage, a path to financial and popular success again appeared assured, although inexplicably in another year where Sydney topped the league, the crowds fell away. Then two events hit the club. The first was the closure of the 'fortress' Allianz Stadium at Moore Park, for an unnecessary rebuild, at the end of the 2017/2018 season. It forced fans to attend games in Kogarah or Leichhardt, and many in Sydney's base come from the north shore and eastern suburbs. It was bad for attendances, as I predicted in December 2017 in this article, "*No, Gladys, build it and they won't come.*" The same move from Parramatta Stadium made Western Sydney Wanderers' following a shadow of its previous intensity.

Then near the end of the 2019/2020 season, COVID hit, and crowd numbers were severely limited. Budgets were cut for the 2020/2021 season and many star players left, including Le Fondre. Ironically, 2020/2021 has been highly entertaining, with several young stars of the future surfacing, high-scoring games and plenty of contenders for end-of-season honours.

The A-League's financial problems

Most money in sport comes from broadcast deals. In 2018, the A-League signed a five-year deal with Foxtel worth $57 million a year running until 2023. However, the contract had an exit clause if no games were delivered for 20 days, and the A-League stopped on 24 March 2020 due to COVID. Foxtel walked away from the game, threatening to cease coverage for the rest of the 2020 season when it resumed, and thereafter. Eventually, Foxtel signed a new one-year deal at half the previous rate, around $28 million, severely reducing the income of all clubs. Mr Traktovenko would be writing out big cheques again despite the wage cuts accepted by players.

The A-League was in a weak negotiating position because viewer ratings had been falling for three years. The AFL's new extended broadcast deal with the Seven Network is worth $946 million over two years, while Foxtel pays $200 million a year for NRL plus massive free-to-air fees.

The A-League currently has no broadcast deal in place beyond the current season, due to end in a few months' time. It simply cannot compete for eyeballs despite more people playing the sport than any other in Australia. Football Australia CEO, James Johnson, told SBS's The World Game:

"Broadly, we have more interest in our sport than any other. It's just that the other sports are watched more. That's it. More people play our sport. Our biggest challenge as a sport is that we can't convert our two million participants into fans of our professional leagues."

Football fans like watching live action

The first game of the 2016/2017 season in the A-League was amazing. Sydney FC played Wanderers at ANZ Stadium and a record club crowd of 61,880 turned up. It was a fantastic atmosphere, and Sydney won 4-0 against the biggest rivals. Sydney's success that year culminated in a nail-biting Grand Final, as tense as anything I have experienced in football (and I have attended three World Cups, a European Champions League Final and numerous FA Cup Finals). Success was built around player of the year, the sublime Milos Ninkovic and the goals and finishing prowess of Bobo.

Yet in the middle of that winning season, Round 19, only 8,380 turned up to watch a home game, half the average from Del Piero's first year. As I wrote in the 2017 article:

"Soccer fans love to watch the game live. The Socceroos recently attracted 77,060 to the final World Cup qualifying game against Honduras. An incredible 163,652 attended two friendly Arsenal games (v Sydney FC 80,432 and v Western Sydney Wanderers 83,221) in July 2017. That's more than watch Arsenal at their home ground in London. The Liverpool game against Sydney FC in May 2017 drew 72,892, despite Liverpool including several retired players such as Steven Gerrard and Jamie Carragher. An ageing Steve McManaman was an embarrassment. These games have no competitive meaning and no tension but the public flocks to them."

There is no comparison with the excitement of a Sydney FC competition game versus these silly exhibition games. Most of the fans at the Arsenal and Liverpool games show Euro snobbery and don't realise how good the local game is.

What about supporters from the two new teams?

In December 2018, the A-League announced its expansion plans with new clubs in Macarthur South West Sydney and Western Melbourne. Both are football heartlands with thousands of young and old soccer players loving the game. Bidding for new places was highly competitive with dozens of interested parties and serious bids with financial backing including from National Soccer League club South Melbourne, Canberra and a southern Sydney team.

Surely, anyone pouring millions of dollars into a new club and facilities would have a major strategy to develop a fan base, and locals would delight in following their own team that represented their area and values.

But consider the example of a game played between these two new clubs on 20 March 2021 at Campbelltown Stadium, total attendance 1,870. In Campbelltown, home to thousands of kids and adults who play every weekend, where let's face it, there's not much else to do. Why do Dads and Mums not want their children to see the highest goalscorer in A-League history, Beshart Berisha, with Italian maestro Allessandro Diamanti playing for Western United? The Macarthur team included long-time Socceroo Mark Milligan and English front man Matt Derbyshire.

More recently, on Monday night this week, the crowd for Western United versus Newcastle was the lowest in A-League history, at only 990. Twitter comments became embarrassing as even dedicated fans did not know the game was on.

Rowry.Brizzle @BrizzleRowry · 12h
Replying to @Setre17
I'm a WU member and I didn't even know this match was happening tonight. Total communication failure so I'm not surprised hardly anyone turned up.

Seamus Lyons @LyonsSeamus17 · 13h
Great to see football continuing to build in the west. #WUNvNEW

Thomas Williamson @Setre17 · 13h
The size of the "home" active support is just overwhelming #WUNvNEW

Admittedly, there have been scheduling disruptions and unpopular mid-week games, but there are no crowd limitations in place. The attendances are lower than at any time in the competition's history.

Where to now?

Attending football should be like eating out. Just because someone experiences the fine dining of a three-star restaurant in Paris, London or Barcelona does not mean they will no longer enjoy their local eatery. Sure, neither Lionel Messi nor Ronaldo is cooking up a storm in Parramatta or Geelong, but nobody says, *"Oh, I've been to El Bulli in Catalonia, Ferran Adria is amazing. I can't eat out anywhere else now."*

The A-League is a high-quality product which is not expensive to watch. A family of four can attend a Sydney home game for $62 (sometimes much less). With the return of Adam Le Fondre, Sydney will boast an amazing forward line with two of the top three goals-per-game players in the competition's history, plus Kosta Barbarouses who sits sixth on the all-time scorers charts.

After years of negotiation, Football Australia finally handed over commercial and marketing responsibilities to the A-League clubs at the end of 2020, with the competition run by a new company called the Australian Professional Leagues (APL). The owners will determine their own destiny in making money.

Watching a game live is far superior to television coverage. You can watch any part of the pitch, players moving off the ball, how formations change, how professionals position themselves ... anyone who plays the game (and apparently there are two million Aussies out there) will benefit from watching the game at the highest level in this country.

Okay, it's not Barcelona versus Liverpool, it's not the greatest players in the world, but it's good, and long may David Traktovenko provide the readies to keep it that way. It's hard to find a silver bullet when there is such poor media coverage, but which comes first? ... If there were more people watching, sports channels would buy the product. Football fans have only themselves to blame if the owners give up.

Graham Hand is Managing Editor of Firstlinks and he is at every Sydney FC home game in the same seat - first tier, half way line, near the coaches box - with a beer in one hand and a pie in the other. Bliss!

It's not all about interest rates: give me a 1980s petshop galah!

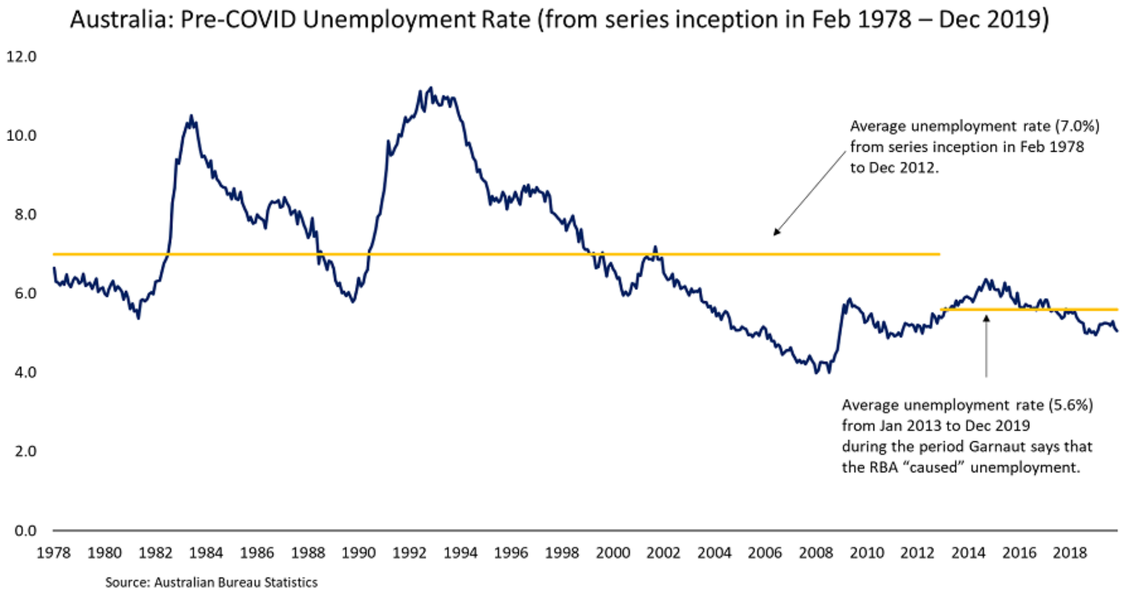
Stephen Miller

The notion that the RBA 'chooses to allow' the 'voluntary unemployment' of several hundred thousand Australians is something that may come as a surprise to many. Yet that is precisely the charge levelled at the central bank in a tome from economist Ross Garnaut. He claims that such unemployment was a consequence of the RBA running monetary policy too tight after 2012.

Now Ross Garnaut is no slouch. He was a senior economic adviser to then PM Bob Hawke during the 1980s and has written extensively and thoughtfully on economic policy issues for decades.

However, the charge against the RBA is largely a specious one.

For one thing, the average monthly unemployment rate from February 1978 (when the current series was commenced) to the end of 2012 was 7.0%. From that point to the onset of the pandemic it was 5.6%.



It might be interesting to find out who Garnaut puts in the frame for the even greater levels of 'voluntary unemployment' in the decades prior to 2012.

It's not only about monetary policy

Of course, hindsight is a wonderful thing, and the RBA may have run monetary policy a little too firmly after 2012. It is also probably true that the time has come to move on from inflation targeting as the overarching focus for monetary policy. Perhaps to one that explicitly embraces, among other things, an employment objective.

In the scheme of things, the RBA's 'culpability' for unemployment levels is not deserved of the prominence that Garnaut and others give it. That prominence derives from an unbridled but misplaced faith in the efficacy of macro policy and a corresponding reluctance to consider structural measures that enhance the economy's flexibility and adaptability.

The political wherewithal to consider such measures reached their apogee under the banner of 'microeconomic reform' during Paul Keating's Treasurership.

By the late 1980s, as the then Treasurer put it, "*every galah in the petshop was talking about microeconomic reform"*. That agenda extended through the 1990s during his Prime Ministership and into the early stages of the Howard Government. (To be fair to Garnaut, he does canvass, albeit selectively, some measures of this nature.)

Where are the microeconomic reforms?

It was those type of microeconomic reforms, including measures to enhance labour market flexibility, that drove the 'natural' rate of unemployment lower, to the '4 point something' now articulated by RBA Governor Lowe as a potential 'natural' rate, or perhaps even as low as the 3.5% Garnaut now posits.

But the current tacit refusal of both sides of politics not only to assign such 'microeconomic reform' measures to the 'too hard' basket, but in some cases reverse those reforms, looms as a bigger potential culprit in occasioning higher unemployment than any 'failure' to adequately fine-tune macro or monetary policy.

For the most part, however, every galah in the petshop now persists in talking about nothing else other than how an (easier) twist in monetary policy, including a turn to the 'unconventional', is a pivotal part of a panacea for our perceived economic ills.

But monetary policy is limited in what it can achieve and should be just one increasingly minor part of the overall policy armoury. Key global central bankers, including Governor Lowe, have been trying to tell markets, governments and academia this very fact for some time – apparently to little avail.

Meanwhile, historically high levels of monetary accommodation have unleashed a plethora of 'unintended consequences', such as asset bubbles and growing wealth inequality, excessive risk-taking and attendant financial stability concerns. Easy liquidity sets 'moral hazard' traps that debilitate economic performance by allowing 'zombie' companies to persist, ultimately delaying necessary economic adjustment and lowering the economy's growth path by inhibiting its productivity, flexibility and dynamism.

That is not to say there is no role for macro policy in a post-pandemic environment. But an assessment of that role should include a revisiting of the objectives of monetary policy and, more importantly, a recognition of its limitations.

We need to use all arms of economic policy

Central banks, including the RBA, are not perfect. The galahs in the pet shop – gratuitously - remind us of this all too often. But central banks need support from, and need to support, other arms of economic policy.

So, I do wish - just occasionally - that those aged petshop galahs would sometimes advance an advocacy of the agenda that they pushed in the 1980s. An agenda that ultimately set up Australia for a globally unprecedented three-decade long expansion and one that has the best chance of navigating the economy safely to and through the post-pandemic world.

Stephen Miller is an Investment Strategy Consultant with GSFM, a sponsor of Firstlinks. He has previously worked in The Treasury and in the then Treasurer, Paul Keating's Office, from 1983-88. The views expressed are his own.

10 quick points on Bitcoin, the wannabe that grew up

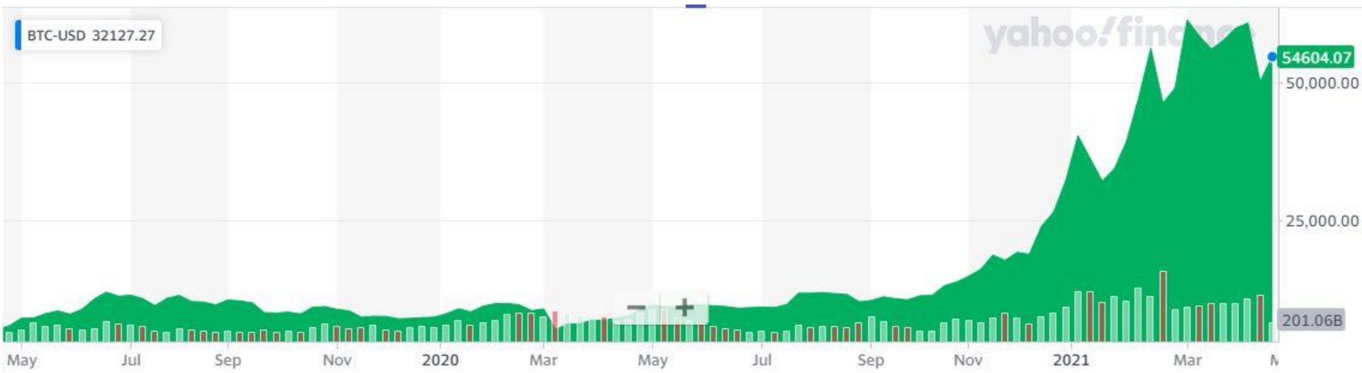
Rich Webley, Sandy Kaul

In 2014 Bitcoin was a relatively unknown five-year-old digital currency with a market value of just $US6.2 billion. Skip forward to February 2021 and Bitcoin's market capitalisation is now $US1 trillion with an ecosystem around it that includes crypto exchanges and banks, and new offerings into savings, lending and borrowing.

The biggest change with Bitcoin over that time is the shift from it being primarily a retail-focused endeavor to something that looks attractive for institutional investors. In a search for yield and alternative assets, investors are drawn to Bitcoin's inflation hedging properties and it is recognised as a source of 'digital gold' due to its finite supply.

Specific enhancements to exchanges, trading, data, and custody services are increasing and being revamped to accommodate the requirements of institutional investors.

(Here is a two-year price chart of Bitcoin, sourced from yahoo!finance).



10 observations on risks and opportunities

There are a host of risks and obstacles that stand in the way of Bitcoin progress. But weighing these potential hurdles against the opportunities leads to the conclusion that Bitcoin is at a tipping point, and we could be at the start of massive transformation of cryptocurrency into the mainstream.

Here are 10 observations:

1. Bitcoin has become increasingly mainstream and has spurred the creation of a widening ecosystem around cryptocurrency. Growing acceptance on major consumer-focused platforms like PayPal indicate Bitcoin and other cryptocurrencies are expanding their presence in the real world.

2. Perceptions on Bitcoin have evolved from a focus on (1) its ethos-oriented roots as a payment system, (2) to an alternative currency that is both resistant to censorship or interference and stores value to protect purchasing power, (3) to a form of digital gold due to its finite supply (only 21 million Bitcoins can be created). A focus on global reach and neutrality could position Bitcoin to become an international trade currency in the future.

3. Once the domain of retail investors, Bitcoin is increasingly attracting institutional investors searching for yield and eyeing inflation on the horizon. Bitcoin offers institutional investors an inflationary hedge, a portfolio diversifier, and a safe haven alternative to government bonds. In particular, Bitcoin's value proposition as a form of digital gold fills a niche for both risk assets and inflation hedges in an investment landscape remade by the COVID-19 pandemic.

4. Enhancements to data, exchange and trading, and custody services are emerging to meet the needs of institutional investors. These include the development of Bitcoin derivative contracts and over-the-counter (OTC) crypto desks.

5. Open interest in the Chicago Mercantile Exchange's (CME's) Bitcoin futures, a benchmark for institutional activity, surged by over 250% between October 2020 and January 2021.

6. Bitcoin is driving interest and investment into other digital currencies. As such, Bitcoin is becoming the de facto 'North Star' of the digital asset space, with its trajectory being seen as a compass for the evolution of the broader ecosystem.

7. New innovations including the announcement of fiat-backed stablecoins used within private networks, such as the Diem (formerly Libra) initiative, may build pressure for central banks to consider issuing their own digital currencies. China is already experimenting with the use of a digital Yuan.

8. If efforts progress to the actual issuance of central bank-backed digital currency, blockchain would become a mainstream offering. Individuals and businesses would have digital wallets holding a variety of cryptocurrencies, stablecoins, and central bank digital coins (CBDCs) just like they today have checking, savings, and treasury accounts. Connectivity between the traditional fiat currency economy, public cryptocurrency networks, and private stablecoin communities would become fully enabled.

9. In this scenario, Bitcoin may be optimally positioned to become the preferred currency for global trade. It is immune from both fiscal and monetary policy, avoids the need for cross-border foreign exchange (FX) transactions, enables near instantaneous payments, and eliminates concerns about defaults or cancellations as the coins must be in the payer's wallet before the transaction is initiated.

10. Various concerns over capital efficiency, a lack of protections, and security against hacks and illicit activity, among others, limit the widespread adoption of cryptocurrencies. While security issues have occurred, just 0.3% of the activity in the cryptocurrency space was linked to illicit activity in 2020.

Sandy Kaul is the Global Head of Citi Business Advisory Services and Rich Webley is Head of Citi Global Data Insights. Citi Australia is a sponsor of Firstlinks. This information is not advice and has been prepared without taking account of the objectives, situations or needs of any particular individuals.

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