Firstlinks
a Morningstar company

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Editorial

The **Gell-Mann Amnesia Effect** is evident in the financial media every day. Author **Michael Crichton** created the name after he realised that everything he read or heard in the media was wrong when he had direct personal knowledge or expertise on the subject. He surmised that almost everything else is probably incorrect as well. I'm sure plenty of epidemiologists, immunologists and physicians are frustrated by much of what they read about COVID. Crichton explained:

"Briefly stated, the Gell-Mann Amnesia effect is as follows. You open the newspaper to an article on some subject you know well. In ***Murray Gell-Mann****'s case, physics. In mine, show business. You read the article and see the journalist has absolutely no understanding of either the facts or the issues. Often, the article is so wrong it actually presents the story backward - reversing cause and effect. I call these the 'wet streets cause rain' stories. Newspapers are full of them. In any case, you read with exasperation or amusement the multiple errors in a story, and then turn the page to national or international affairs, and read as if the rest of the newspaper was somehow more accurate about say Palestine than the baloney you just read. You turn the page and forget what you know."*

'*Wet streets cause rain*' - love it. Three examples we have covered recently show much of the media grabs the headlines and tells half the story, such as.

1. Critics have jumped on the 13 super funds that have failed the YFYS test, delighting in naming and shaming, but there are many nuances. Few have pointed out that **APRA** is ignoring whether the asset allocation chosen by the fund is appropriate for its members. The regulator is simply measuring performance against selected benchmarks. A fund can deliver 15% versus a benchmark of 15.5% and fail the test while another fund could deliver 5% against a more defensive benchmark of 5.25% and pass. Which trustees have done better for their members?

2. It is fashionable to condemn the franking credits system because 'wealthy' retirees pay no tax and receive large tax refunds. But this should not be a criticism of an imputation system which is well-designed to prevent double taxation. It is the super system where income earned in pension mode is tax free. Most critics attack the wrong subject (and I am not saying tax-free pensions are wrong, just that they should be the subject discussed).

3. And now another old chestnut has reared its head which much of the media will love: long-suffering clients of financial advisers demanding compensation for market falls in March 2020. As the reporting of successful claims gathers momentum, the poor folk who expected their adviser to switch them to cash in February 2020 will feature and encourage hundreds of other claims. Cases are appearing before the **Australian Financial Complaints Authority** (AFCA) based on the 30% market drop. The articles should acknowledge that: 1)

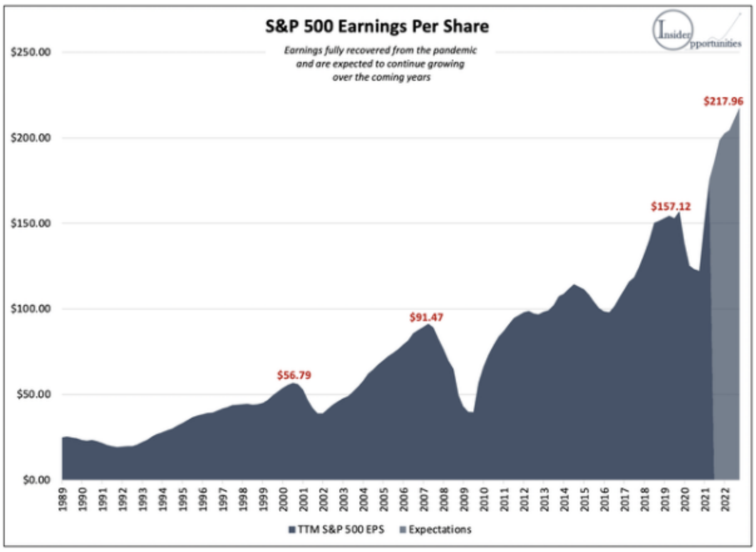
clients who stayed invested would have recovered, 2) most of these clients knew their own positions, and 3) advisers are no better at picking markets than anyone else. Claims will be paid to prevent poor publicity but most of them are not justified.

And the list goes on. Financial markets have few absolutes.

Not many people in the market are old enough to have used the dots and dashes of Morse code while more would know the 'ticker tape' method to send stock prices. These days, we can still be guided by the dot plot and the tiny red and blue triangles that appear in the newspaper every day. Have you noticed them? For me, they are compelling daily reading and an insight into which stocks and sectors are doing well and not so well. Do dots and triangles offer any lessons these days?

One lesson from **Ashley Owen** checking the longest runs of positive months in the Australian market is that they are not a sign of a coming bust. After the recent excellent run, September might call a halt to the record run with billions in dividends shipped out of major companies. Check Ashley's great chart.

In both Australia and the US, we remain in a strong bull market around all-time highs. According to **Insider Opportunities**, analysts in the US expect Earnings per Share (EPS) across S&P500 companies to reach $217.96 from a pre-pandemic high of $157.12. Such earnings recoveries usually take longer than seven years and regularly 10 to 12 years in the past.



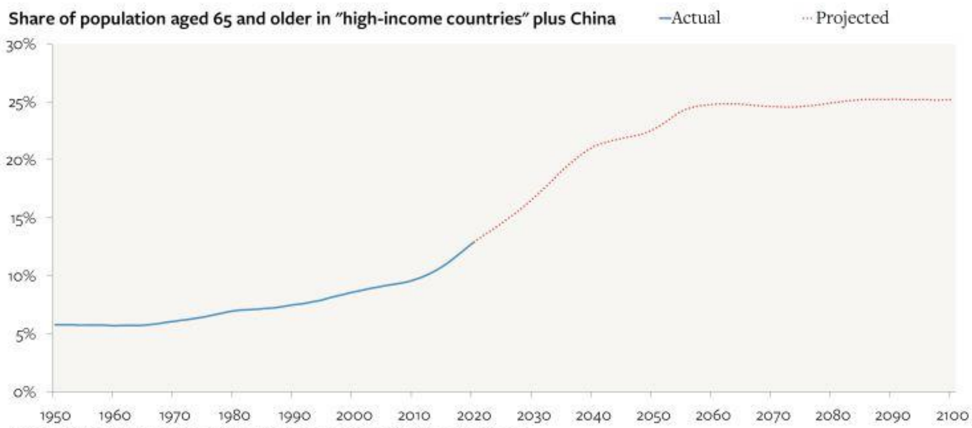
Many think the biggest threat to market strength is inflation, but **Tom Nash** explains why Australians have even less to fear than in other markets.

Moving on to demographics, new books and estate court cases ...

Back to nuances, the oft-repeated phrase '*demographics is destiny*' is appealing but usually has limited application. It is increasingly difficult, for example, to predict how people will vote based on their background. And where once we were concerned about leaving debt to future generations, there seems far less concern about rapidly-rising government debt as markets appear to suffer no adverse consequences. There is no desire by the Government, for example, to ask firms to repay the $13 billion from **JobKeeper** that went to companies whose revenues did not fall in the pandemic.

But one demographic trend that will have an impact over coming decades is the ageing population and fewer workers to fund their benefits. Workers (younger people) are more productive than non-workers (older) and the **Intergenerational Report** (IGR) says that as recently as 1982, there were 6.6 people of working age for each person over 65. It is now 4 and in 2060 will fall to 2.7.

It is similar in most developed countries. The global economies with the highest incomes and output are experiencing a rapid increase in the share of population of their older people, from about 7% in 1990 heading to 25% by 2060.



Source: United Nations Population Division, Matthew Klein's calculations

This week, we have two pieces relating to demographics. **Terry Rawnsley** looks at the latest data to estimate when a 45-year-old is likely to retire and how the age is changing. And **Rafal Chomik** is less sanguine about the outlook in the IGR and says there are many reasons it might work out worse than Treasury's forecasts.

A change of pace in our final two articles. **John West** reviews new books from famous authors **Michael Lewis** and **Nigel Inkster**, both up-to-the-minute on two leading issues. Then lawyer **Donal Griffin** explains two recent court cases where carers challenged the wills on wealthy estates, a reminder that almost any will can end up in court.

This week's White Paper from **Western Asset** examines five reasons why fixed interest still has a role in portfolios. Do bonds provide effective diversification in a traditional asset allocation framework, and what has changed?

Don't forget the '**Wealth of Experience**' podcast if you'd like to hear **Peter Warnes** and I chat about markets, stocks and policies with a fund manager interview included each week.

And check the latest updates section below, including the large kick up in ETFs in August with growth of $6.3 billion.

This week's Comment of the Week comes from **Stephen** who wrote about the YFYS test for super funds:

"It is also instructive that even Warren Buffett is likely to fail the APRA test. Over the last seven years his performance via Berkshire Hathaway has been 11.1% pa vs 14.6% pa for the S&P 500 total return index. I don't know what benchmark APRA would consider suitable for Buffett, but I think the US market is a reasonable one. He has underperformed by 3.5% pa, well beyond the "fail" measure of 0.5% pa proclaimed by APRA. Buffett would have write to all his shareholders saying they are in an underperforming investment and should look elsewhere. If the underperformance continues into next year Buffett would have to declare that he could accept no new shareholders. Yet Buffett is lauded as one of the most successful investors of all time. His annual meetings attract 40,000 disciples. What value is there is a scheme that would declare one of the world's most successful investors a failure? What am I missing here?"

How dot plots and tiny triangles shape our investments

Graham Hand

From the 1890s, before the technology to transmit voices was invented, long-distance communication relied on Morse code. It was text encoded in a standardised sequence of dots and dashes transmitted by sound waves or visible light. Into the 20th century including radiotelegraphy in World War Two, high-speed international communication used Morse code transmitted on undersea cables, telegraph lines or radio circuits. Today, the US Air Force still trains some air men and women each year to retain Morse skills although commercial use has ceased.

The early days of financial communications were similar. The ticker tape transmitted prices and shares over telegraph lines from as early as 1870 until about 1960. A paper strip of dots ran through a machine called a stock ticker. It was a revolution in its day as it allowed trading floors and newspapers across vast distances to stay on top of market prices.

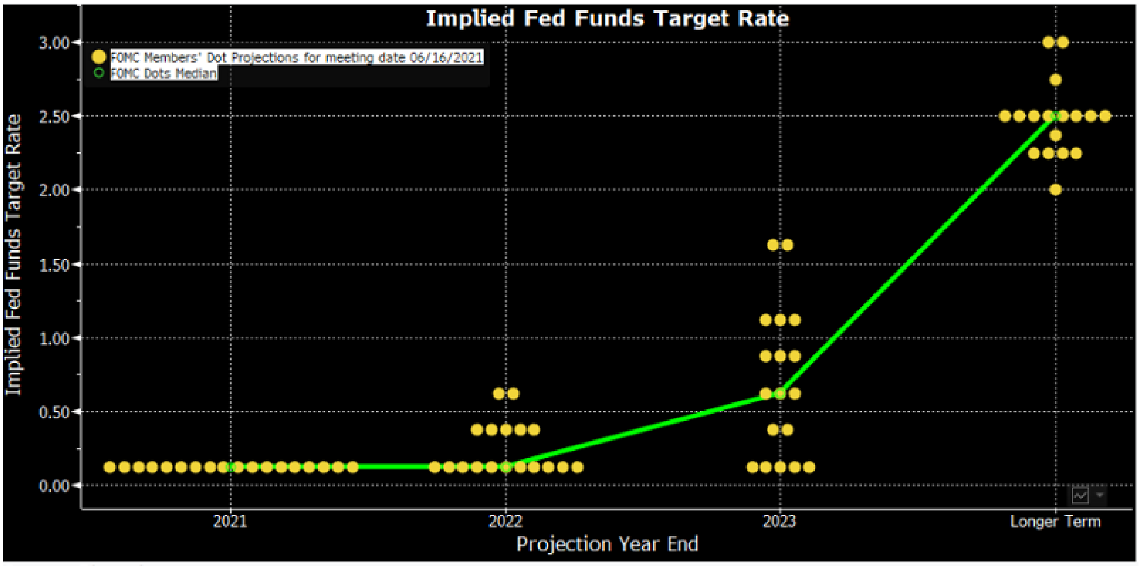
Now, where each person has a computer in their pocket and with billions of connected devices, 24/7 business channels and a blogger or influencer on every corner, these little dot symbols might signal a past era.

But the 'dot plot' has become increasingly important and no more so than today, and what about those little blue and red triangles in the daily newspaper? What do they tell us?

The FOMC dot plot

In 2012, with the GFC still prominent in investor memories, the US Federal Reserve wanted greater transparency regarding what Fed officials were thinking about movements in interest rates. The Federal Open Market Committee (FOMC) 'dot plot' was introduced to summarise the opinions of up to 19 Fed officials (seven members of the Board of Governors of the Fed plus 12 regional banks). The dots plotted the outlook for the fed funds rate, the rate at which US banks lend to each other, and an updated dot plot is published quarterly.

The dot plot has become another indicator of potential changes in monetary policy, which the market is eagerly awaiting sometime over 2021 or 2022 with potentially profound implications for prices of all assets. The latest dot plot from June 2021 is below.



Source: Bloomberg

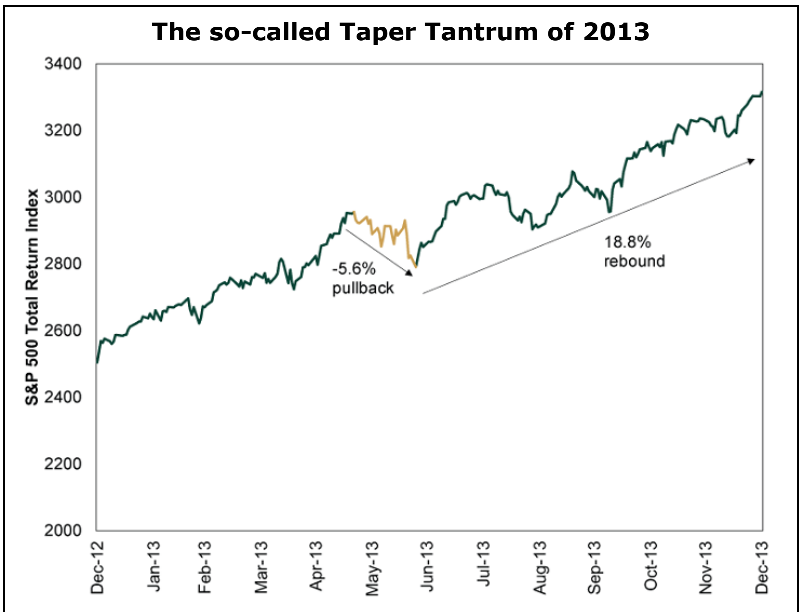
The green dot is the median of the other dots. The messages from the latest dot plot include:

- By the end of 2021, none of the Fed officials expect the fed funds rate to move above the range of 0% to 0.25% (the yellow dots represent the mid-point of the range).
- By the end of 2022, five officials have moved their range up to 0.25% to 0.5%, while two are at 0.5% to 0.75%.
- By the end of 2023, only five remain at the current 0 to 0.25%, while others are higher with three at 1% to 1.25% and two at a wide 1.5% to 1.75%. That puts the median at 0.5% to 0.75%.
- Longer term, everyone is well up, ranging from 2% to 3%.

When comparisons are made with the March 2021 dot plot, more officials expect a hike by 2023, leading the claims of a 'hawkish' move in monetary policy. The next meeting of the FOMC is 21 September 2021.

Call that a tantrum?

Fed officials are saying that over the next year or two, the fed funds rate will start to rise, perhaps materially so. The Fed and the markets hope to avoid the so-called 'taper tantrum' of 2013, when in May, Chair Ben Bernanke first talked about 'tapering' or reducing bond purchases. Over the years, this tantrum has taken on a fabled life of its own and is often held up as evidence of the risk in raising rates. However, the reaction was not as bad as popularly conveyed, as shown in the chart. The pullback was less than 6% and then the market recovered strongly for the rest of the year. If that's a tantrum, bring it on.



Source: Fisher Investments

The daily stock triangles

In the shape of things, let's move from dots to triangles.

There is a fascinating part in the daily sharemarket tables of the printed version of our major newspapers that I did not notice until recent years. Now I find it compulsive reading every day ... and yes, I like to read the printed version. These tables are harder to find on their websites.

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The stock tables include little blue triangles to denote a stock trading at a 12-month high and a red triangle for a 12-month low.

I am not a trader or broker and I do not watch hundreds of stocks every day. These little triangles are a quick check on how the market and particular stocks are performing. Here is an example from last weekend.

Extract from The Sydney Morning Herald, 4 September 2021, Trading Room section

Centuria Cap		3.47	+5	16349	3.48	1.998
Centuria Ind	▲	4.00	+2	21948	4.07	2.91
Centuria Off	▲	2.59	+2	34467	2.62	1.895
Cettire	▲	3.17%	+58	35560	3.21	.45
Chalice Gold		6.80	+12	14514	9.34	1.34
Challenger		6.44	-6	13777	7.37	3.55
Challng Expl		.275	-.5	7603	.395	.185
Champ Iron		5.70	+1	16410	7.86	2.66
Chart Hall LW	▲	5.35	+4	12162	5.36	4.318
Chart Hall Ret		3.89	+2	18064	4.08	3.275
Chart Hall Soc	▲	3.89	+12	27552	3.92	2.65
Charter Hall		18.14	+10	6375	18.83	11.53
Chorus		6.90	+1	1910	8.78	5.57
CI Res		1.01	-4	49	1.20	.80
CIMIC		21.87	+31	2889	27.51	16.86
Cirralto		.067	-.1	89134	.21	.029
City Chic	▲	6.35	+12	4447	6.39	2.49
Civmec		.68	-2	117	.77	.39
Clarity Pharm		1.42	+5	6507	1.71	1.35
Class		1.805	-14.5	690	2.32	1.405
Clean Seas		.535	+.5	508	.92	.50
Cleanaway		2.68	-1	43898	2.865	2.05
CleanSpace	▼	1.30	-4.5	4199	7.69	1.298
Clearview	▲	.61%	+7	12283	.625	.315
Clime Cap		.965	-.5	431	.975	.76
Clinuvel	▲	40.44	+240	4222	40.96	19.53
Clover		1.575	-4.5	1523	2.45	1.17
Cluey		1.38	-2	152	1.48	.85
Cobalt Blue		.275	+.5	9964	.515	.083
Cobram Olives		2.00	-	16638	2.21	1.81
Cochlear		237.36	+482	1542	257.76	176.68
Coda Minls		1.02	-2.5	2298	1.75	.24
Codan		14.92	-4	4049	19.43	9.20
CogState		1.62	-3	31520	1.915	.61
Cokal	▲	.185	+1	42499	.195	.047
Coles Gp		17.74	-12	24495	18.94	15.275
Collins Food		12.55	+6	2602	13.25	9.01
GenusPlus		1.02	-	429	1.12	.87
Genworth		2.20	+4	20386	3.09	1.315
Geopacific		.32	-	3952	.68	.28
Global Data	▲	1.93	+3	1468	1.93	1.58
Global Val		1.20	-3	866	1.27	.995
Globe Intl		6.57	-31	115	7.15	1.605
Gold Road		1.25	-1	15134	1.70	1.04
Good Drinks Au		.09	-	2101	.11	.044
Goodman		23.12	+4	27415	23.80	16.37
Gowing Bros		3.09	+7	227	3.09	1.35
GPT	▲	4.99	+9	44962	5.02	3.69
GR Engin		1.80	+2.5	1310	1.89	.925
GrainCorp		6.19	-2	5100	6.40	3.44
Grange Res		.585	+.5	26090	.91	.23
Greenland		.12	+1	43045	.355	.068
Greenvale		.43	+.5	2329	.66	.04
Growthpoint	▲	4.43	+13	21693	4.45	2.965
Gryphon CIT		2.04	-	3930	2.10	1.82
GTN		.47	-1.5	70	.60	.29
GUD		10.74	+22	3500	13.69	10.19
GWA Gp		2.80	+2	24859	3.94	2.43
H						
Hansen Tech		6.17	+3	1974	6.37	3.60
Harmoney		1.905	+4.5	291	3.55	1.195
Harvest Tech		.32	+2	7949	.50	.25
Harvey Norm		5.22	-8	55296	6.09	4.17
Hastings		.225	+1.5	26663	.27	.115
Hazer		1.10	+4	10058	1.885	.39
Healius		5.01	+6	21875	5.33	3.25
Healthia		1.93	-4	73	2.18	.965
Heartland		2.10	+7	-	2.10	1.06
Hearts Minds		4.55	+15	591	4.95	3.36
Helios Ene		.145	+.5	11852	.19	.115
Helloworld		2.07	+8	16126	3.36	1.50
Highfield		.53	+1	2178	.885	.40
hipages	▲	3.78	+9	1764	3.84	1.93
MGC Pharma		.054%	+.7	334911	.13	.02
Michael Hill		.825	-1.5	1056	.935	.35
Micro-X		.285	+.5	594	.45	.165
Microeq		.945	-	330	.95	.40
Midway		1.10	+2	195	1.27	.785
Milton	▲	6.92	+12	30679	7.03	4.01
Mincor Res	▲	1.44	+9	15878	1.445	.82
Mindax		.044	+.1	4159	.235	.015
Mineral Comd		.15	-	498	.485	.139
Mineral Res		54.70	+141	8158	65.38	23.96
Mirrabooka		3.84	-3	1030	4.17	2.49
Mirvac Gp		3.11	-2	68083	3.15	2.01
Mitchell Srvc		.455	+1.5	4907	.59	.359
MLG Oz		.855	-1.5	570	1.40	.77
MMA Offshore		.35	-	539	.448	.25
MNF Gp		6.20	+19	66	6.76	4.17
Monadelphous		10.44	-17	5595	15.55	9.11
Monash IVF		.985	-1.5	5955	1.03	.56
Money3		3.51	+1	5623	3.80	1.91
MoneyMe		2.15	+4	4041	2.48	1.29
Motorcycle		3.24	-4	490	3.43	1.715
MSL Solns		.235	+.5	1306	.25	.061
Mt Gibson Iron		.565	-	44867	1.01	.56
Murray Cod		.315	+.5	2209	.485	.12
Musgrave Min		.32	-	4407	.65	.265
My Food Bag		1.30	-2.5	-	1.67	1.235
MyDeal		.795	+3	2484	2.20	.52
Myer		.515	-.5	14141	.55	.195
MyState		5.10	-	2025	5.44	3.497
N						
NAB	▲	28.70	+21	67806	28.78	16.56
Nanosonics		6.69	+2	6714	8.25	4.885
NAOS Emerg		1.16	-	686	1.17	.88
NAOS Sml Cp		.95	+1	1063	1.025	.42
Natl Storage	▲	2.40	+5	48219	2.44	1.766
Natl Tyre		1.28	-1	691	1.325	.56

Data is provided to The Sydney Morning Herald by Morningstar.

Look at all the blue triangles. In the SMH last Saturday, I counted 70 stocks at 12-month highs on one day, and only eight red triangles for 12-month lows.

The red triangles are often revealing. The media focusses more on spectacular price increases that double or triple and make a company founder wealthy (including a picture of a wealthy, handsome couple with beaming smiles), rather than the subsequent tumble. The red triangles are a reality check. Remember all the massive gains on Buy Now Pay Later (BNPL) stocks, where the market backed every entrant in the wake of Afterpay's success? Where are they now?

BNPL company	12-month high	Price on 4 Sept 2021
Splitit (ASX:SPT)	$1.72	$0.43
Openpay (ASX:OPY)	$3.80	$1.33
Sezzle (ASX:SZL)	$11.99	$6.59
Zip (ASX:Z1P)	$14.53	$6.78
IOUpay (ASX:IOU)	$0.85	$0.30
Humm (ASX:HUM)	$1.39	$0.84

There's a reason why the triangles are red, with a lot of damage jumping on that bandwagon.

It’s also instructive to see the market’s focus and trends. On this one day, the table shows:

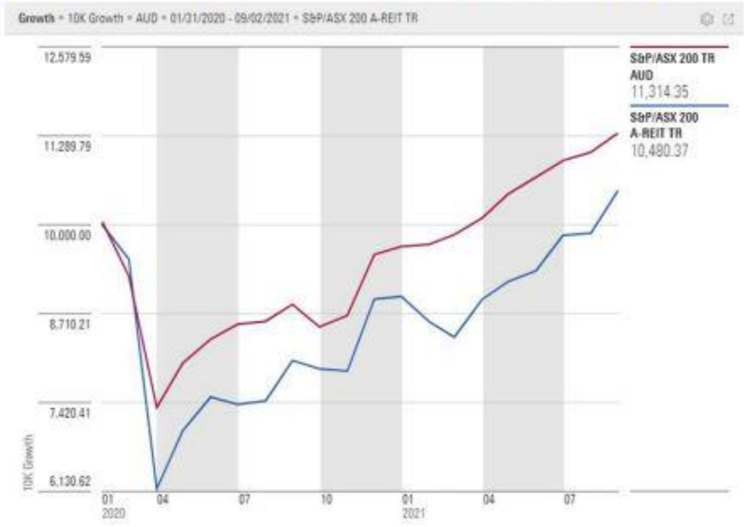
1. Highs for a wide range of property funds (A-REITs)and property companies, such as GPT, Growthpoint, Centuria Industrial Fund, Charter Hall Long WALE, Charter Hall Social Infrastructure, APN Industrial Fund, Arena REIT, CVC, SCA Property, Sunland and Lifestyle Communities. The companies Goodman and Charter Hall which have benefitted most from the success of industrial property during the pandemic are also near all-time highs. The market has chosen the property winners, including many that were heavily marked down in 2020 but they have come roaring back despite extended lockdowns. Expectations that commercial real estate could not collect rent from tenants through the pandemic were too pessimistic.

2. Listed funds such as Cadence, Milton, Spheria, National Storage and Clime (one cent off a high), fund manager Pendal and banks NAB and Macquarie show financials recovering after taking a pounding in 2020. For example, Cadence has a 12-month low of $0.695 and is now $1.265, Spheria's low was $1.475 and high $2.52, Milton $4.01 to $7.03. Many have increased their NTA plus removed some of the discount to NTA.

3. Specific stocks on a roll, such as Ramsay Health, WHSoulPatts, South32, Whitehaven, Iluka, PWR, Tech One and Paladin. We have featured some of these stocks recently, such as here and here.

Here is a graphical representation of the A-REIT recovery as reflected in the yearly highs, plotted with the S&P/ASX200 Total Return index since 01/2020.

The A-REIT index has recovered its losses from the pandemic



Source: Morningstar Direct

As an aside, anyone who picked up The Weekend Australian for this exercise might have broke into a sweat. Almost every stock was marked at a 12-month low. Somebody pressed the wrong button.

CNI	CenturiaCapita ▼	3.47	+.05	1634907	3.48	1.90	2.92	13.9
CQR	Ch Hall Retail ▼	3.89	+.02	1806440	4.08	3.27	6.05	7.6
CGF	Challenger Ltd ▼	6.44	-.06	1377791	7.37	3.55	3.08	7.3
CHC	Charter Hall ▼	18.14	+.1	637515	18.83	11.53	2.1	17.6
CLW	Charter Hall Lon ▼	5.35	+.04	1216265	5.35	4.31	5.46	4.6
CQE	Charter Hall Social Inf ▼	3.89	+.12	2755229	3.79	2.58	4.16	7.8
CNU	Chorus Ltd ▼	6.9	+.01	191014	8.78	5.57	3.43	67.2
CIM	Cimic Ltd ▼	21.87	+.31	288966	27.51	16.86	4.73	13.2
CRO	Cirralto ▼	.067	-.001	8913480	.21	.029		
CCX	City Chic Collective ▼	6.35	+.12	444780	6.32	2.49		64.9
CU6	Clarity Pharmaceuticals Ltd ▼	1.42	+.05	650741	1.71	1.35		
CL1	Class Ltd ▼	1.80	-.14	69015	2.32	1.40	2.56	65.6
CWY	Cleanaway Wst ▼	2.68	-.01	4389887	2.86	2.05	1.71	37.8
CSX	CleanSpace ▼	1.3	-.045	419956	7.69	1.3		8.7
CVW	Clearview ▼	.61	+.07	1228316	.59	.31	1.85	50.9
CAM	Clime Capital ▼	.96	-.005	43145	.97	.76	5.04	5.0
CUV	Clinuvel ▼	40.44	+2.4	422241	38.15	19.53	.07	76.0
CLV	Clover Corp ▼	1.57	-.045	152386	2.45	1.17	1.85	26
CLU	Cluey Ltd ▼	1.38	-.02	15221	1.48	.85		
CBO	Cobram Estate Ltd ▼	2.0		1663879	2.21	1.81		
COH	Cochlear Ltd ▼	237.36	+4.82	154295	257.76	176.68	1.1	46.8
CDA	Codan Limited ▼	14.92	-.04	404946	19.43	9.2	1.8	29.8
COG	Cog Financial Services Limited ▼	1.48	-.01	29869	1.51	.53	4.85	
CGS	Cogstate Ltd ▼	1.62	-.03	3152041	1.91	.61		40.4
COL	Coles Group ▼	17.74	-.12	2449519	18.94	15.27	3.39	23.7
CKF	Collins Foods ▼	12.55	+.06	260235	13.25	9.01	1.84	44.2

GMA	Genworth Mtg ▼	2.2	+.04
GDC	Global Data Centre Grp ▼	1.93	+.03
GVF	GlobalValueFund ▼	1.2	-.03
GLB	Globe Int ▼	6.57	-.31
GDA	Good Drinks Aust ▼	.09	
GMG	Goodman Group ▼	23.12	+.04
GOW	Gowing Bros ▼	3.09	
GPT	GPT Group ▼	4.99	+.09
GNC	Graincorp Ltd ▼	6.19	-.02
GNG	GREngineering ▼	1.8	+.025
GOZ	Growthpoint ▼	4.43	+.13
GUD	GUD Holdings ▼	10.74	+.22
GWA	GWA Group Ltd ▼	2.8	+.02
HSN	Hansen Tech ▼	6.17	+.03
HMY	HarmoneyCorp ▼	1.90	+.045
HTG	Harvest Technology ▼	.32	+.02
HVN	Harvey Norman ▼	5.22	-.08
HZR	Hazer Grp ▼	1.1	+.04
HLS	Healius Ltd ▼	5.01	+.06
HGH	Heartland Group ▼	2.1	
HM1	Hearts and Minds ▼	4.55	+.15
HE8	Helios Energy ▼	.14	+.005
HLO	Hello World Tr ▼	2.07	+.08
HLA	Healthia ▼	1.93	-.04
HPG	hipages ▼	3.78	+.09
HMC	Home Consortium ▼	7.09	+.36

Lessons when there are many more winners than losers

With so many companies reaching their highs, how should investors react?

1. Revisit your long-term strategic asset allocation and rebalance where necessary. It is likely that investors with stocks doing exceptionally well are not only overweight a particular company but also in their equity asset allocation. It might be time to take something off the top in both.

2. Stay invested. Markets often thrive on momentum and there are few signs interest rates will fall, leaving the TINA trade intact. In particular, individual stocks may have bright prospects and not be overvalued even if the market as a whole is expensive. Some of the Australian property stocks and funds fell heavily in 2020 and their valuations may be reasonable.

3. Don't assume the market will stay at this level. It's easy to take risk when markets are rising but at some point, there will be a correction. It is difficult for any investor to avoid FOMO.

4. Avoid behavioural clichés such as 'let your winners run' or 'nobody ever went broke making a profit' or 'the trend is your friend'. For every Afterpay that kept on running, there is a Kogan which peaked at $25.57 and is now around $11. These popular phrases have a place but each individual stock should be considered on its fundamentals.

It's a trade-off, even between these four points. If a portfolio becomes more concentrated, a mistake is more expensive, but if winners are sold, future success can be reduced.

Whether guided by dots, dashes or triangles, don't go round in circles but stick to your long-term plan.

Graham Hand is Managing Editor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

Longest positive run for Australian shares since WWII

Ashley Owen

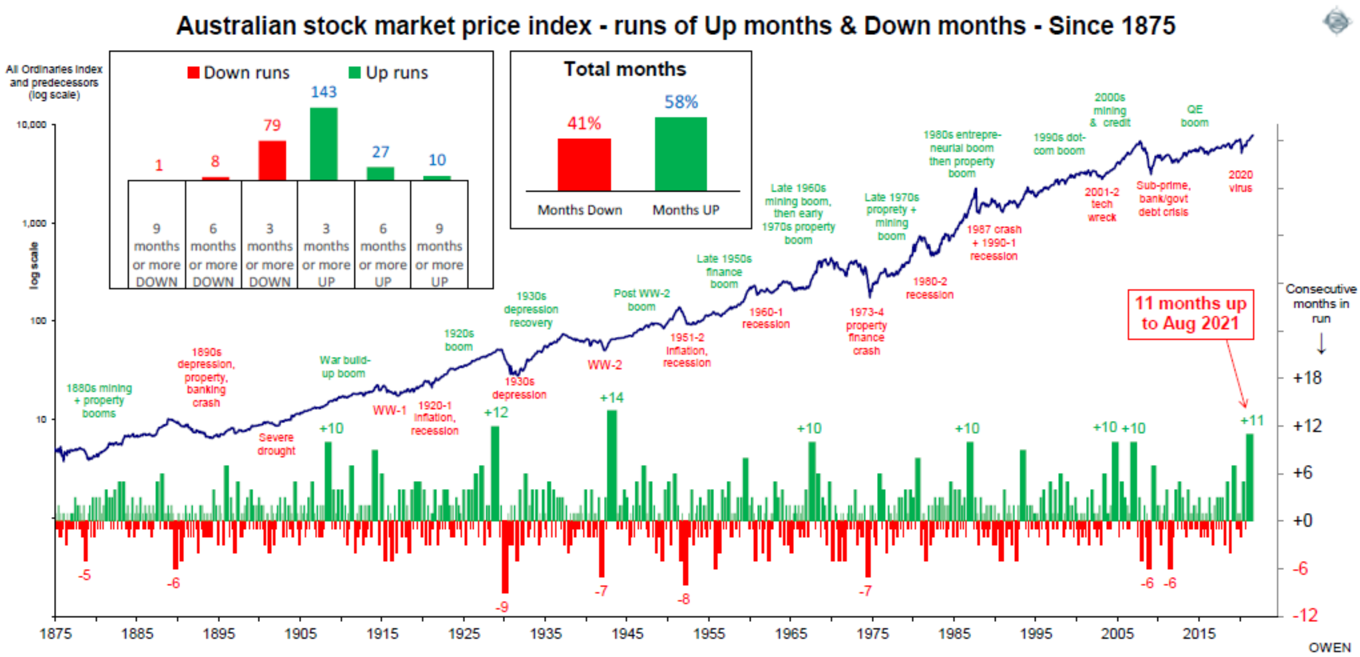
August 2021 marked the longest run of consecutive positive months for the Australian share market since World War II. Although such long positive runs are unusual, they are by no means an automatic warning of imminent demise. Previous long positive runs for shares were not all followed by crashes or corrections, at least not immediately thereafter. However, the current run may end in September as healthy dividends leave company bank accounts.

A strong sign of confidence

This particular measure is rather fickle, as a sustained run of positive (or negative) months can be broken by a miniscule negative (or positive) month caused by something which might be a completely random event. However, it does provide a general picture of overall market sentiment and confidence in the form of sustained bouts of optimism (or pessimism).

The main chart shows the steady upward march of the local share market over the past 150 years through booms and busts along the way. The lower section shows the runs of consecutive positive months (green bars) and runs of consecutive negative months (red bars).

Most of the time, the market drifts along, switching between short runs of up to three months at a time up or down. Every few years a more sustained run develops, and these are highlighted in the chart.



The longest positive run for shares in Australia was 14 months from April 1942 to September 1943, when the market rose by 30% in the middle of WWII. Prior to the run, the market had fallen by -29% from September 1941 to the end of March 1942. The turning point for the War in the Pacific, and the trigger for the start of the share rebound, was General Macarthur's arrival in Australia as the Supreme Commander of Allied Forces.

The 14-month share rally was ended not by a correction but by a tiny -0.1% fall in October 1943, and prices then kept on rising more or less steadily to the end of the War.

There have been several positive runs of 10 months for shares, including two during the 2003-07 China/credit boom, one in the mid-1980s takeover boom prior to the 1987 crash, one during the late-1960s mining/oil boom, and one during the post-Federation drought. There was also a 12-month positive run ending in May 1929 before the 1929-31 crash.

Negative runs fewer and shorter

On the other hand, runs of consecutive *negative* months for shares have been fewer and shorter than the positive runs. This is highlighted by the larger of the two insert charts in the main chart above.

The longest run of negative months was 'just' nine months from August 1929 to May 1930, when the broad market fell by -34%. That was essentially the first half of the -64% fall in the 1929-31 crash.

Australian company profits surging back

The tremendous run of 11 consecutive months of gains in the local share market is likely to come to an end this month (September 2021) but the reason is that company profits and dividends are booming, not falling.

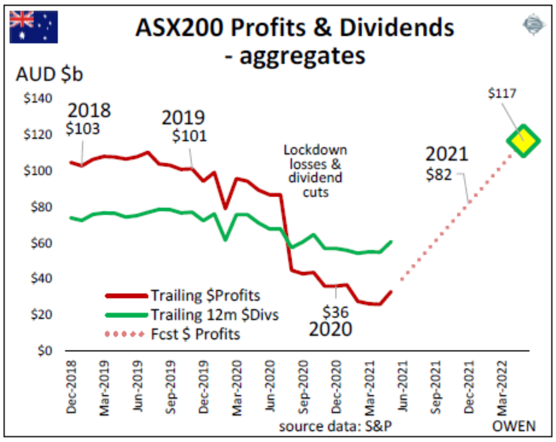
Company share prices will fall as they pay out unusually large dividends from the very strong reporting season to the end of June. If a company with a share price of say $20 pays a $1 per share dividend, the share price will fall by the amount of the dividend (plus or minus any other impacts on the company or the broad share market that day). The 'total returns' to shareholders are unchanged. The shareholder's wealth is still the same $20 per share: $19 in the market value of the share after the dividend is paid out, plus the other $1 now in the shareholder's pocket.

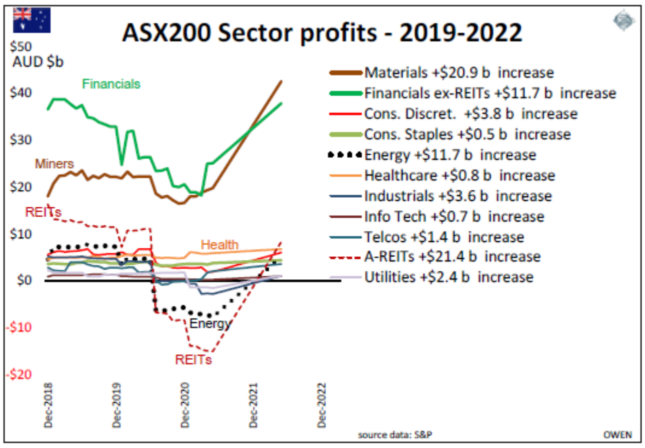
As this season's dividends will be the largest in history, investors will need to take extra care to redeploy the extra cash into productive investments, because cash is still returning zero.

The good news is that the bumper profit and dividend picture is well ahead of the targets to recover from the 2020 collapse, although we are still in lockdown (and probably back in economic contraction).

The next pair of charts are from our past reports to show the extent of this recovery. The left chart shows the steep decline in aggregate profits (maroon line) and dividends (green) in 2020, and it highlights the profit rebound target, high in the sky ahead. Aggregate profits fell by $101 billion in 2019 to just $36 billion in 2020 but were forecast to rebound to $82 billion by the end of 2021, and then $117 billion to June 2022.

These profit rebound forecasts have been keeping the share market rising over the past year. The magnitude and speed of the rebound appear ambitious at first sight, but we track it stock-by-stock and we have been confident that the rebound will be achieved or exceeded. The right chart shows the profit rebound targets by sector.





August is the main reporting season in Australia as most companies have June financial years. There are some significant exceptions, including three of the big four banks (ANZ, NAB and Westpac have September years), and most of the oil and gas majors have December years.

The US market (more than half of the global share market) has quarterly reporting whereas the ASX only requires half yearly, and the US and global markets are well ahead of target to more than fully recover their 2020 losses in 2021.

The iron ore bonanza

The right chart above shows the Resources sector of the ASX was targeting a profit *increase* of $21 billion over last year. It looks ambitious, but it has already been achieved – from just the three big iron ore miners – BHP, RIO and FMG.

The table below sets out their combined *increases* in profits ($22 billion) and dividends (also $22 billion) from the June 2020 half to the June 2021 half.

	Net Profits A$m			Dividends A$m			
	June 2020 half	June 2021 half	Change	June 2020 half	June 2021 half	Change	June Half 2021 Div per share (A$)
BHP	$4,475	$9,893	+$5,418	$3,910	$13,836	+$9,926	$2.7356
RIO	$4,806	$16,417	+$11,612	$3,531	$12,293	+$8,762	$7.6006
FMG	$3,291	$8,281	+$4,990	$3,077	$6,492	+$3,415	$2.1100
Total	$12,572	$34,592	+$22,020	$10,518	$32,621	+$22,103	
CBA	$3,473	$5,084	+$1,611	$1,734	$3,544	+$1,811	$2.0000

NB. BHP, RIO and FMC report their results in US dollars, becuase commodities prices and revenues are priced in US dollars.

This table shows the A$ equivalents for Australian investors.

We also show CBA at the bottom of the table for comparison, as CBA is the largest stock in the ASX. CBA's very respectable increases in profits ($1.6 billion) and dividends ($1.8 billion) over the same period have been dwarfed by the iron ore bonanza.

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

When will I retire? The data tells the story

Terry Rawnsley

Demographers, economists and policy makers are increasingly concerned about the ageing population and increasing number of people aged over 45 who will start to transition into retirement over the next 20 years. In 2020-21, 39% of the Australian labour force were aged over 45 versus 32% in 2000-01.

Intergenerational reports prepared for Commonwealth and State Governments highlight challenges with the ageing population and the rise in the number of people who may choose to retire. This will have significant impacts on the labour force, consumption patterns and public finances and in turn on economic growth.

There does not exist an accepted approach for measuring the age of retirement. There is data on people accessing superannuation or aged pensions, but this doesn't account for people who are still working. Sample surveys ask respondents if they are retired or likely to retire at a single point in time, but this does not capture the dynamic nature of the transition into retirement.

Without regular data on people's transition into retirement, it is difficult to develop policy and programmes to deal with the challenges of an ageing population. To fill this void, KPMG has prepared an age of retirement dataset. To measure the age of retirement, KPMG has used the same approach as measuring life expectancy.

That is, for a person aged 45 today, at what age are they expected to retire? The expected age is based on changes in the probability of remaining in the labour force for each year.

Expected age of retirement

In 2020-21, men aged 45 were expected to retire at age 65.2 and woman were expected to retire almost one year earlier at 64.3. Tables 1 and 2 present the expected retirement age for women and men for selected years between 2000-01 and 2020-21. Over this period the expected retirement age for woman has increased by 2.6 years and 2.0 years for men.

The increase in the expected age of retirement has been driven by a range of factors including:

- A shift towards service-based jobs and away from more physically demanding jobs
- Overall increased labour force participation among women due range of policy measures that have helped women strengthen their links to the labour force during their 20s, 30s and early 40s. This includes paid paternity leave (for both men and women), access to affordable childcare / early childhood education and more broadly increased focus on gender equity within the society and in public policy.
- Strong labour market conditions helping to retain older workers in jobs
- Changing social attitudes towards older workers
- Increasing trend towards part-time work amongst older workers.

The small increase in the expected retirement age for men is likely related to a strong labour market (due to closed borders limiting skilled immigration) which has encouraged older men to remain in the labour force for longer. Given the adverse impact of COVID-19 on female-dominated industries (e.g. retail and hospitality) the increase in the expected retirement age was not as noticeable as it was for men.

	Greater Sydney	Greater Melbourne	Greater Brisbane	Greater Perth	Greater Adelaide	Australia
2000-01	61.8	61.8	62.0	63.0	62.0	61.7
2010-11	64.0	64.2	64.2	66.0	64.9	63.8
2016-17	64.0	64.1	63.6	64.5	65.1	64.2
2017-18	63.6	64.0	64.3	64.5	65.0	64.2
2018-19	64.1	64.0	64.5	65.1	65.3	64.4
2019-20	64.0	64.0	64.4	64.8	64.5	64.2
2020-21	64.0	64.3	64.5	64.5	64.8	64.3

Expected age of retirement of women (selected years)

	Greater Sydney	Greater Melbourne	Greater Brisbane	Greater Perth	Greater Adelaide	Australia
2000-01	63.9	64.0	64.1	64.2	62.6	63.2
2010-11	65.5	65.6	65.7	66.4	64.2	64.9
2016-17	64.9	65.4	65.0	65.1	64.6	65.0
2017-18	65.0	65.4	64.9	65.5	64.7	65.0
2018-19	64.8	65.4	65.0	65.2	64.5	65.0
2019-20	64.8	65.5	65.1	65.6	64.3	65.1
2020-21	65.3	65.3	65.4	65.5	64.6	65.2

Expected age of retirement of men (selected ages)

City comparison

Comparing the major Australian cities, women in Australia's largest cities of Sydney, Melbourne and Brisbane retire earlier than their counterparts in Perth and Adelaide. This may be driven by the relative cost of living, especially in Sydney and Melbourne which encourage older people to shift out of the city as they age to a lower cost regional area.

Over the past two years the expected age of retirement in the major capital cities has started to converge. This convergence is more noticeable for the expected retirement age of men, with increases in Sydney, Brisbane and Adelaide and small falls in Melbourne and Perth.

These movements are reflecting different economic trends in those cities, with a strong labour market in Sydney during 2020-21and a weaker labour market in Melbourne due to COVID-19 lockdowns.

Implications of later retirement

The length of retirement has implications for both individuals' personal finances, and for government spending. An increasing age of retirement indicates that businesses will be able to access skilled labour for longer, although the data suggests that older workers would prefer to work part-time. This presents an opportunity for both workers and businesses to come together to retain skilled workers and provider older people with income, social interaction and intellectual stimulation.

In addition to those older people who are maintaining links to the labour force, there appears to be a cohort of older people who are moving away from the major cities into the regional area. COVID-19 may have accelerated this shift of people to regional areas.

This has the potential to create housing affordability problems for 'local residents' in regional communities. This can be addressed by strategic land use and infrastructure planning to take advantage of a growing population. Aged care and health service providers will also have to plan and build capability to deal with the increasing demands of a larger and older population.

There is also the need to continue to maintain momentum on gender equity. Ongoing business support and policy changes to further advance gender equity will help reduce the retirement gap between men and woman. This includes provision of more affordable childcare / early childhood education, more generous paid paternity leave for both men and women and reducing the distinction between primary and secondary carers between parents to name a few. These actions will help bring the retirement age of women in line with men.

Increasing the length of woman's working careers will provide significant productivity dividends for the economy. It will also help to address the gender superannuation gap. KPMG analysis has found that in the years approaching retirement, the gender superannuation gap between men and women can be between 22% and 35%. The median superannuation balance for men aged 60-64 years is $204,100 compared to $146,900 for women, a gap of 28%. For people aged 55-59, the gender gap is 33% and in the 45-49 age group the gender gap is 35%.

Analysis is based on labour force participation data, five-year age groups from the Australian Bureau of Statistics Labour Force Survey, calibrated using detailed labour force survey data from the Census of Population and Housing.

Also see Wood, D., Griffiths, K., and Crowley, T. (2021). Women's work: The impact of the COVID crisis on Australian women. Grattan Institute.

Terry Rawnsley is a Director, Demographics & Urban Economics, Planning & Infrastructure Economics at KPMG. This article is general information only.

Reality may be worse than the Intergenerational Report expects

Rafal Chomik

We've had five Intergenerational Reports, the first (IGR02) in 2002, and the most recent (IGR21) in June 2021.

Each has presented a startling picture of a widening gap between the revenue collected from a declining share of predominantly younger taxpayers and the spending needed on an increasingly older population.

In all but the latest, the financial challenge has got 'less worse' over time.

It has worsened this last time because the temporary halt to immigration has for the moment removed one of the tools we have used to slow population ageing and because the COVID crisis meant less economic growth, less growth in tax revenue, and more government spending than we had been expecting.

What's sobering

Over the next 40 years, the economy and incomes are expected to grow more slowly than in the past, leaving the budget in continual deficit.

This is in part because while needed spending on ageing and health will increase as previously projected, income from taxes will increase only up to a self-imposed cap, reaching it in the 2030s.

But the reality may be worse. The report is optimistic about the rebound to migration, about increases in labour force participation, and about average productivity growth.

If any one of these generous assumptions doesn't come to pass it will be more difficult than projected to balance the budget as the population ages.

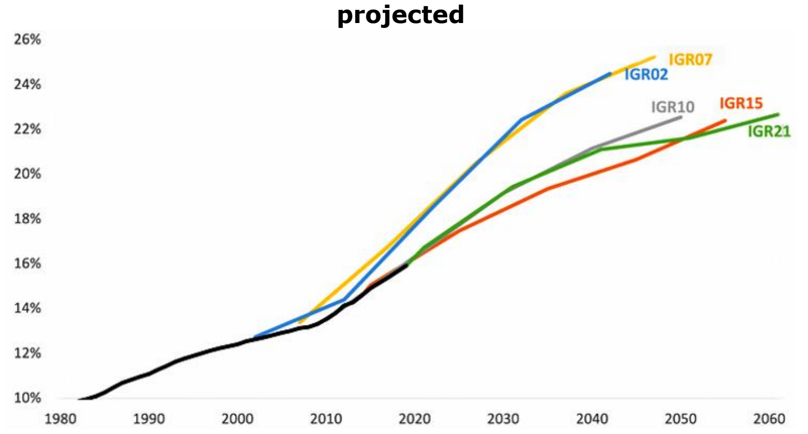
What's probable

While the demographic fallout from the pandemic is expected to exacerbate population ageing trends, over successive Intergenerational Reports until now, projections for the proportion of the population aged over 65 have become less pronounced.

Even now, projections for the proportion of the population aged over 65 are tracking those in the 2010 report but haven't taken us as far back as the first.

Much will depend on net migration. It is assumed to rebound to 235,000 people per year by 2025, with a revamped focus on skilled migrants. If it gets and stays that high, or climbs, our population will age slowly.

Proportion of population over 65, actual (black) and projected



Author's analysis of ABS and Treasury data

What's possible

In each Intergenerational Report so far, a greater proportion of the population has been making itself available for paid work than previously expected.

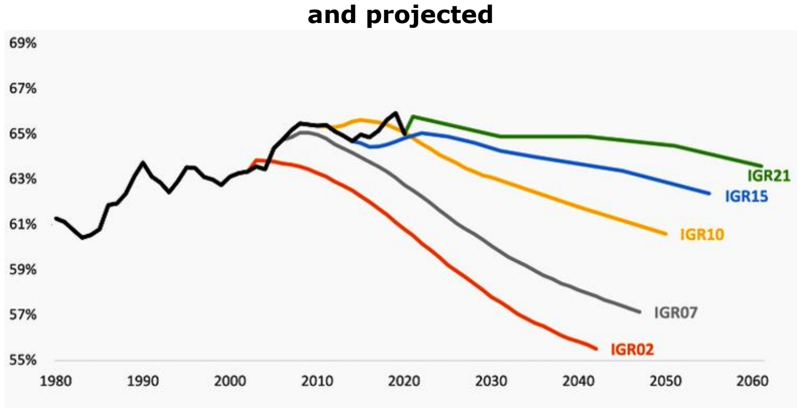
Since 2002, the labour force has grown by 41%. Nearly half of that increase was workers over the age of 50.

There are now a million more women over 50 in the labour force than at the time of the first intergenerational report, and the participation rate of women aged 60-64 had doubled.

But increases in older-age participation are slowing even though each new cohort of older Australians is healthier, more educated, and more employable.

Research shows if older people are to thrive and prosper in the labour market as the treasury's figures suggest, Australia will need to dismantle barriers related to health, training, discrimination, and work conditions and scale up strategies to help employers recruit and retain older workers.

Proportion of people aged 15+ in the labour force, actual and projected



Author's analysis of ABS and Treasury data

What looks over-optimistic

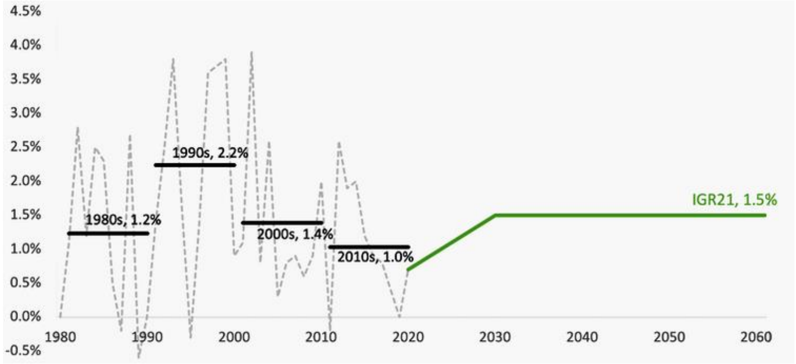
At the launch of the Report, Treasurer Josh Frydenberg quoted economist Paul Krugman that "*Productivity isn't everything, but in the long run, it's almost everything.*"

With greater labour productivity (GDP per hour worked) we earn more with the same or less effort, potentially offsetting the economic and fiscal impacts of ageing.

The report's productivity growth assumption for the next 40 years is based on the average of the last 30 years: 1.5% per year. Yet recent rates have been much less, and have been declining over time.

Average annual productivity growth over the last decade, including the pandemic recession, has been 1%. Treasury's sensitivity modelling shows that lower than projected productivity growth of 1.2% would see the economy and incomes 9% to 10% lower by 2060-61 and the budget deficit 2.2 percentage points wider. Australia isn't alone in experiencing a slowdown in productivity growth and it isn't clear how much Australia by itself can do about it.

Labour productivity annual growth and decade averages, actual and projected



Change in average GDP per hour worked. Author's analysis of ABS and Treasury data.

The Report points to a suite of microeconomic reforms related to competition, digital technologies, patents, research and development, and skills, some of which were recommended in a landmark review by the Productivity Commission in 2017. But as the Treasurer pointed out, many of the big reforms have already been done. As he put it: "*You can't float the dollar twice.*"

What's unmodelled

And a key set of figures are missing from the report - those relating to the impact of climate change. There is a chapter on the environment describing risks, but it doesn't feed them into formal projections in the way this month's NSW Intergenerational Report did.

Frydenberg's Report is commendable. It presents an opportunity to talk about ways to achieve a better future – not just the one it outlines.

Rafal Chomik is a Senior Research Fellow at ARC Centre of Excellence in Population Ageing Research (CEPAR), UNSW and responsible for the Centre's research translation program. This article is republished from The Conversation.

Inflation? Nothing (much) to see here

Tom Nash

You may have heard that inflation is surging around the globe. Some commentators point to lax policymakers who are still 'printing money' and engaging in fiscal largesse even as demand strengthens, labour markets tighten and global supply bottlenecks linger. They warn of a return to the price spirals of the 1970s, a dismal time for most asset classes and especially fixed income.

Despite warnings, inflation signs are weak

The truth is that we cannot be sure whether these tail risks will emerge. Economists have a lousy record of forecasting inflationary regime shifts and there seems just as many (if not more) vocalising the opposite argument – that the ultimate economic impact of COVID will be deflationary.

Yet, some things can be said with greater confidence.

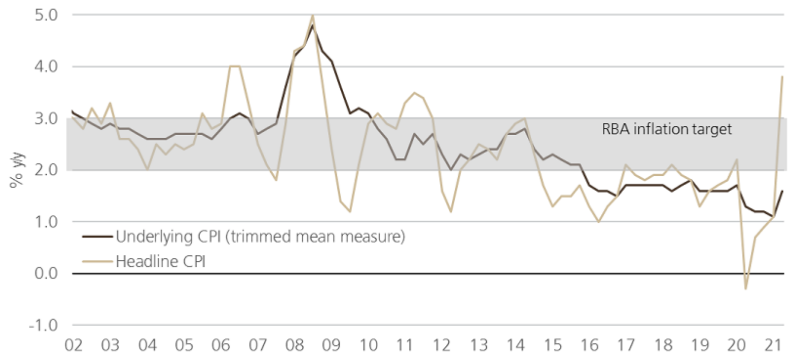
Top of the list is that Australia should be one of the last places where we'd expect to see worrying inflation rates. This much is evident in the latest consumer price index (CPI) data. Whilst the raw headline measure jumped to 3.8% year-on-year in Q2, this is easily explained by the reversal of factors that had caused it to drop negative last year, such as childcare subsidies and the slump in fuel prices.

Looking at the RBA's preferred trimmed mean shows just how tepid underlying inflation is, with the index running at just 1.6%.

The labour market also does not ring any alarm bells. Australia's unemployment rate has already pushed below the 5% level that had proved sticky prior to COVID and, with the tap of inward migration turned off, some have argued that this might finally result in a strong pick-up in wages. But this is not borne out in the aggregate data.

Wages grew at a disappointing annual rate of 1.7% in Q2, a period largely free of lockdown distortions, which remains far from the 3%-plus that the RBA aspires to. Our explanation is simple. The uncertain demand backdrop means employers are reluctant to lock-in higher wage costs. It is hard to see this changing any time soon.

Chart 1: Core inflation still below RBA's target, where it has been for more than 5 years



Source: Bloomberg

Still below the RBA target

In fact, it could still reasonably be argued that Australia's problem is a shortfall of inflation, at least when it comes to meeting the central bank's 2-3% target. It is this which sets Australia apart from the likes of New Zealand, US and Canada, which are all currently experiencing above-target core inflation. Longer-term market measures of inflation expectations such as the breakeven rates implied by 10-year linkers paint a similar picture, anchoring close to 2%.

Chart 2: Inflation trend appears lower than peers such as US, Canada, UK and NZ

	Core inflation		CB inflation	10Y inflation BE	Historic CPI vol
	latest (%)	5Y avg (%)	target (%)	rate (%)	(1 std dev.)
US	3.6	1.9	2.0	2.3	1.0
Canada	3.1	1.9	1-3	1.7	0.7
NZ	2.2	1.6	1-3	1.9	1.1
UK	1.8	1.8	2.0	3.6	1.3
Eurozone	1.6	0.9	2.0	1.5	0.9
Australia	1.6	1.6	2-3	2.0	0.8
Japan	-0.8	0.0	2.0	0.2	1.0

Source: UBS Asset Management, Bloomberg
Note: Core inflation is central bank preferred measure

What are the implications for investors?

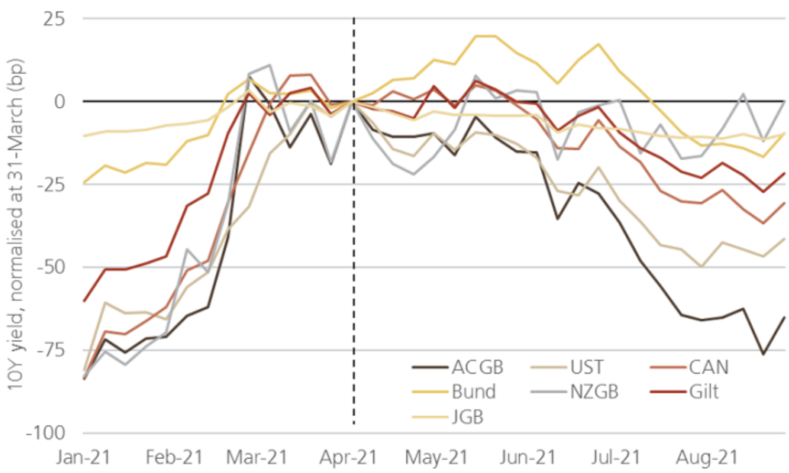
This has two implications for Australian Commonwealth Government Bonds (ACGBs), both positive.

First, inflation trends still point to market expectations of low-for-longer interest rates persisting. RBA Governor Lowe has increasingly acknowledged the inflation undershoot and, with his term approaching expiry, has vowed not to raise interest rates until inflation is sustainably within the 2-3% target band, a condition the bank does not expect to be met until 2024, at the earliest. A shallow expected path of the cash rate should exert a gravitational pull on bond yields.

Second is how this relates to the other component of bond yields, the term premium that compensates bondholders for the risk of holding the security to maturity. Greater uncertainty over the inflation outlook argues for larger absolute levels of term premium and wilder swings in bond yields. The table above however shows that Australia is not just experiencing lower inflation than most of its peers but also that volatility is lower.

This need not mean local bond markets will be dull - witness the high sensitivity of ACGBs to the rout in global bonds in February. What it does say is that

Chart 3: ACGB yields have fallen the furthest since March



Source: Bloomberg

investors can take advantage of these episodes of volatility, adding duration in the knowledge that higher yields are unlikely to be warranted by fundamentals. As it has turned out, investors taking that view in March would've been rewarded handsomely with ACGBs staging a world-beating rally since.

Tom Nash is Portfolio Manager, Australian Fixed Income Investment Team at [UBS Asset Management Australia](). UBS is a sponsor of Firstlinks. This article is intended to provide general information only and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities as it does not take into consideration your investment objectives, legal, financial or tax situation or particular needs.

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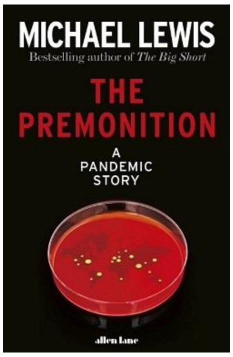
Michael Lewis on pandemics and Nigel Inkster on technology

John West

Michael Lewis: *The Premonition: A Pandemic Story* (W. W. Norton & Company, 2021)



Way back in October 2019, before most anyone had heard of Covid-19, a group of experts from the Nuclear Threat Initiative, Johns Hopkins Center for Health Security and The Economist Intelligence Unit developed the Global Health Security Index, which ranked some 195 countries in terms of their readiness for a pandemic. The United States came in Number 1, the most capable, and the United Kingdom Number 2.

And yet, as we now know, US performance in managing Covid-19 through 2020 and 2021 has been one of the worst of all advanced countries, with 36 million cases and more than 600,000 deaths. Celebrated author, Michael Lewis, seeks to understand and explain this conundrum in his new book, The Premonition: a pandemic story. Lewis has a handful of quirky characters through whom he tells his story in a text that is based on interviews and constructed using real events – a model he has employed through a catalogue of works, such as Liar's Poker, The Big Short and The Undoing Project.

Lewis' previous book, The Fifth Risk, was strangely prescient. He framed the US federal government as a manager of a portfolio of existential risks, whose experts had been neglected and abused for more than a generation. The book asked: "What happens when the people in charge of managing these risks, along with the experts who understand them, have no interest in them?" This sets the stage for The Premonition.

Lewis' story is a portrait of a broken, dysfunctional system, not just the US public health system, but the whole society. In the telling of the story, the US federal government Centers for Disease Control and Prevention (CDC) becomes the main villain.

Lewis' argument is that you need to look beyond blaming Donald Trump and to the nation's fragmented, underfunded public health system.

The three key characters had been working on the impact of a pathogen landing in America, and all saw that the tools to deal with one were inadequate. The central character is Charity Dean, a dynamic local public health officer in California who, during her efforts to contain a 2013 meningitis outbreak, found the CDC to be useless in a crisis. Already by January 2020, through studying Chinese social media, she was able to interpret the tragic evidence coming out of Wuhan, while plane loads of Americans were still returning home without being tested for Covid.

Then there is Carter Mecher, a critical care doctor who had been pulled into the George W. Bush administration to design a pandemic plan. He was analysing very early the available Covid data using "redneck epidemiology". He believes that in a disease outbreak you need to get answers fast, before you know for sure what is happening, in contrast to the counter-productive perfectionism of the CDC – because by the time you know for sure, you'll be overrun. Finally, there is Joe DeRisi, a biochemist, who developed technology for rapid viral testing, while the CDC bungled testing for Covid.

As the Trump administration was abdicating responsibility for managing Covid, these three figures came together through the "Wolverines", a network of doctors who had previously worked in the White House together, and tried to convince the government about the seriousness of the killer virus. But as Covid spun out of control, they lost the battle, and so did America, while the CDC were not ringing the bell.

Through the battles of these three characters, we learn that America does not have a system of public health, it has 3000 disconnected public health officers who aren't networked or led by the CDC in a serious way. Lewis' argument is that you need to look beyond blaming Donald Trump and to the nation's fragmented, underfunded public health system. As one of Lewis' characters says, "Donald Trump was a comorbidity". But surely Lewis is too generous to Trump, whose attitude towards Covid was simply reckless, suggested by his disbanding of the pandemic response unit in the White House.

President Donald Trump is described by one character in Michael Lewis' new book as a coronavirus "comorbidity". President Trump delivers a Covid-19 update briefing, 30 March 2020, in the Rose Garden at the White House (D Myles Cullen/White House/Flickr)

How did the CDC become so ineffectual and bureaucratic? Over the years, the CDC had become like an academic institution, and highly politicised. It was no longer capable of controlling disease. No one really knew who was in control when the first signs of Covid appeared. It ultimately lost its ability to be brave, and became a mouthpiece for Trump. But in reality, the CDC may not quite be in terminal decline, as Lewis implies. President Joe Biden has appointed a new head, Rochelle Walensky, a doctor who has cared for Covid-19 patients, and the agency seems to be tackling the pandemic much more effectively.

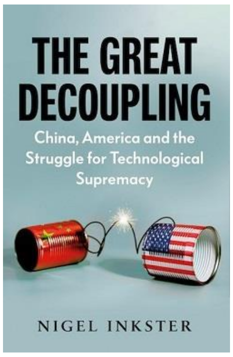
The Premonition makes a very early and insightful contribution that should encourage American elites to reflect more deeply on how the country will respond to future pandemics and other crises in the years ahead.

The Premonition is a highly readable, non-fiction thriller, which sweeps you along through the lives of its heroes in their David and Goliath battle with the bureaucracy, constantly pitting action against bureaucratic caution. In Lewis' writing, it seems that the eccentric scientist is always the hero. One can only wonder, however, about the risk of false alarms being rung by such heterodox scientists. For example, the 2009 swine flu outbreak proved to be less lethal than initially anticipated, and proposals for strong policies to contain the outbreak were wisely abandoned.

Lewis' book is also curious in that Deborah Leah Birx, White House Coronavirus Response Coordinator under President Trump, the White House Covid task force, and Anthony Fauci, director of the US National Institute of Allergy and Infectious Diseases, barely rate a mention. In short, the book does not provide a holistic analysis, but rather a narrative focusing on the lives of its heroes.

These reservations aside, Covid-19 is a phenomenon of truly historic proportions which will over time generate an immense literature, analysing its manifold aspects. In this context, The Premonition makes a very early and insightful contribution that should encourage American elites to reflect more deeply on how the country will respond to future pandemics and other crises in the years ahead.

Nigel Inkster: *The Great Decoupling - China, America and the Struggle for Technological Supremacy* (Hurst Publishers 2021)



China has become a peer competitor with the US for a wide range of technologies, a remarkable feat for a country that was bereft of most modern technologies just four decades ago.

China has been a technological power for most of its recorded history and accounted for half of the world's engineering inventions in the period leading up to the Industrial Revolution period. Yet it never developed a culture of science and missed the Industrial Revolution, writes Nigel Inkster in his new book, [The great decoupling: China, America and the struggle for technological supremacy].

This meant that China was highly vulnerable when it came into contact with the industrialised West and Japan in the 18th century, with devastating consequences for the country. China would remain a technological backwater until its reform and opening up, launched by Deng Xiaoping in the late 1970s.

Inkster, a veteran of the British Secret Intelligence Service, now at the London-based International Institute for Strategic Studies, offers a forensic history of China's technological development. He argues that, somewhat curiously, it was the writings of American futurologist Alvin Toffler that helped China's reformist leaders see the importance of information and communications technologies in promoting the country's economic modernisation.

The burgeoning economic interdependence with the US provided a pathway to technological progress for China, writes Inkster. As China opened its economy, it attracted investment in low-end manufacturing activities, notably the assembly of mobile phones and computers.

This enabled China to develop its technological capabilities, which were enhanced by returning Chinese talent that had been educated in the US and worked in Silicon Valley. The Chinese tech sector has also benefited from massive government subsidies and the exclusion of American tech giants from the Chinese market, a theme that could have been better developed by Inkster.

As China's capabilities grew, so too did its discomfiture with reliance on American technology, particularly after the revelations in 2013 by Edward Snowden on US tech-enabled surveillance. China has been promoting indigenous manufacture of technology and the concept of cyber sovereignty ever since. For Beijing, this means the right for countries to police content transiting their sovereign space. Digital and quantum technologies have also enabled China to become a major global intelligence power.

The election of Xi Jinping in 2012 as general secretary of the Chinese Communist Party proved to be a major event in China's technological development, writes Inkster. Xi grasped the importance of technology. He set the goal of China becoming the leading global technology power in the world by 2035. China is very keen to reshape the world order in its favour and is using its growing dominance in technology to shape global norms and standards for how these technologies are employed. Xi's vision is encapsulated in the phrase 'community of common destiny for mankind', which is code for a China-led world order.

China's rise as a technological power has put it on a collision course with the US, which wants to maintain its global technological supremacy. Inkster argues that China's technological rise is a 'Sputnik moment' for the US. In recent years, the US has been pushing back against China, a policy led by Donald Trump's administration and continued, for the moment, by President Joe Biden. The US wants to constrain China's ambitions and give US companies breathing space to catch up for 5G mobile telecommunications. After all, most of the fundamental technology for Huawei's 5G is actually American.

The 'great decoupling' on the tech front is starting to happen, as the US tries to disentangle its research and development and supply-chain connectivity with China. The US is now denying China access to advanced components, controlling its tech investments in the US, and putting restrictions on joint research activities and Chinese students and migrants in America.

The US has banned Huawei from its 5G network and succeeded in encouraging most Western countries to follow suit. But decoupling will be slow, and partial. Because it results in less collaboration, decoupling will likely have an adverse impact on innovation in both countries. Decoupling has also created some difficult geopolitics, particularly regarding Taiwan, which has cornered the global market for high-end semiconductors—something China can't make and has no likelihood of making soon.

Who will win this technological competition?

The US enjoys the advantages of incumbencies—it got there first. America is ahead for most technologies and China is playing catch-up. The US has much greater strengths in foundational science, which is still a weakness for China.

But the US also has its own problems. It isn't producing the educated people that it needs, so it has to rely on migrants. And while it's been able to attract some of the world's best talent, China will now be much less of a source.

For its part, China has shown remarkable ingenuity in the application of existing technologies. And it is now showing a capacity to innovate, despite the doubts of many Westerners. In some of the higher order technologies like quantum encryption, China is clearly leading the global field.

Perhaps China's greatest risk is that political concerns about security could end up stifling entrepreneurship and innovation. At the same time, the Chinese party-state is able to employ a whole-of-nation approach to technological development that is inconceivable in a liberal democracy.

Inkster concludes that it's far from certain that the US will win this technology competition with China. And the US will need to accept that in some areas of technology, China will dominate.

The strong point of Inkster's book is that he traces China's long-term technological development in the broad context of China's history, civilisation and evolving identity. But that may also be the book's shortcoming, as the narrative of China and America's struggle for technological supremacy is at times clouded by the volumes of contextual information.

That said, the book contains a wealth of information on an issue that is critical for our understanding of US–China rivalry and is an excellent reference for all scholars of Sino-American relations and international relations more generally.

John West is an Adjunct Professor at Tokyo's Sophia University and Executive Director of the Asian Century Institute. He is author of the recent book, "Asian Century ... on a knife-edge" (PalgraveMacmillan, 2018). John's career has included major stints at the Australian Treasury, OECD and ADB Institute.

Thou shalt not covet … thy neighbour's house

Donal Griffin

(Editor's introduction: the author is a lawyer who specialises in protecting family assets and who is a keen observer of related court cases. For many of our readers who are considering what to do with their estates, the law might not be as straightforward as assumed).

I have a personal interest in this legal case because, 20 years ago, my first abode in Australia was in Louisa Road, Birchgrove in Sydney's Inner West. We lived in the worst block on, arguably, the best street in the area. The road is or was home to other celebrities including Bryan Brown, Bruce Beresford, Georgie Parker and Rebel Wilson. They may be surprised at the drama that was developing around them. Or then again, they may not have been surprised in the slightest!

No matter where you live in Australia, a fight in the neighbourhood attracts the interest of all the locals.

Following other articles on carers allegedly behaving badly, we are pleased to share a story of neighbours who acted honourably, looked after an elderly lady and were found, after a stressful legal battle, to have done nothing wrong.

The case is Moore v Aubusson [2020] NSWSC 1466.

Mr Moore and his partner Ms Andreasen (the plaintiffs) lived in 70 Louisa Road and the deceased, Ms Barbara Murphy, owned 66 and 68 Louisa Road. The defendant was the sole surviving executor, Mr Aubusson. The plaintiffs sought a declaration that the executor held, not just the $25,000 that was allotted in the Will but the whole of the deceased's estate on trust for them and an order that the estate be transferred to them.

The plaintiffs based this claim on the fact that the deceased had promised to leave them her whole estate in return for them looking after her for the rest of her life. They had also agreed not to undertake their desired renovations to the extent that those works would impede the view of Sydney Harbour from the deceased's property. Family members and friends of the deceased and the plaintiffs gave evidence that they were told of this arrangement.

Affidavits about these representations were sworn 12 years later and the defendant tried to make much of the delay.

The plaintiffs held up their part of the arrangement and looked after the deceased until her death in 2015. After her death, they were advised that the deceased had left her estate in equal shares to her siblings and left only $25,000 to Mr Moore.

Everyone's evidence was properly heard and considered but the Court quite publicly preferred the evidence of some witnesses and found others to be partly 'implausible' and to have colluded in their evidence.

It's your estate but the Court could intervene

The Court found that the deceased's promise only concerned the deceased's two properties and not the whole of the estate. The Court further found that a detrimental reliance on the deceased's promise had been established as the plaintiffs cared for the deceased at the expense of their own family commitments and by making personal sacrifices. On this basis, the Court ordered that the properties be transferred to the plaintiffs.

As always, the lawyers got paid and Chief Judge Ward pointed out, there were "two applications by the executor(s) for judicial advice, the first heard by Lindsay J in 2016 and the second by Rees J at the beginning of 2019. I simply note that this may be relevant if there is, as was foreshadowed, ultimately a dispute as to the executor's right to be indemnified from the estate for the costs of these proceedings."

In our experience, the executor's costs would usually be paid out of the estate in situations like this.

The moral of the story is to by all means do what you want with your estate but be mindful there can be issues and challenges and all roads lead to Court. Older people can be very vulnerable but they can also tell people what they want to hear!

If you take away all the drama, this is a typical story of an elderly person who wanted to live in their home and not be taken away to live in a nursing home with strangers. Some reports said the carers reportedly got assets worth $40 million for their trouble.

I still live in the Inner West but in a less glamorous street. I wonder what might have happened if I had stayed there and befriended Mrs Murphy …

Another case …

Another instance in which it can be seen that a promise made in one's lifetime may bind their estate long after their death is McNab v Graham [2017] VSCA 352.

Mr Turner and Mrs Turner lived in and owned two semi-detached maisonettes, numbers 73 and 75 Ormond Road in Moonee Ponds. We do not know how close to Dame Edna's house this is!

They had no children and of course needed to be cared for in their later years. Luckily for Mr Turner, he met Mr Graham at their local social club and proposed to Mr Graham that he and his wife live rent-free in No 73 in exchange for providing care to Mr and Mrs Turner and that Mr Turner would leave no 73 to the Grahams upon his death. No written agreement in respect of the arrangement was ever prepared or executed. Mr Graham insisted they paid rent which was decided to be $80 per week in comparison to $120 per week they paid for their previous flat in Essendon which was smaller.

Sadly, Mrs Turner died in 1980 and Mr Turner died in 1997. Unexpected to Mr Graham, the Will granted a life interest in property at number 73 to the Grahams but it was to be given to the Freemasons Hospital upon their death. When Mr Graham sought legal advice from one of the other executors who was the partner of the law firm (McNab) that drew the original Will, he was (incorrectly) advised his claim had no hope of success and that it would be defended. As a consequence, Mr Graham decided not to challenge the Will.

A rethink and a challenge on the Will

Fortunately for Mr Graham, in 2013 he stumbled upon a newspaper advertisement and sought legal advice again as he incorrectly believed upon his death that Mrs Graham could no longer live at the property. Mr

Graham brought a claim against the estate based on equitable proprietary estoppel. At trial, Mr Graham gave evidence that Mr Turner promised that on Mr Turner's death, the property would be left to the Grahams.

At first instance the Court found in favour of the Grahams and ordered that steps be taken to execute the property transfer. The executors sought leave to appeal the decision. However, the appeal was dismissed, and the property remained with the Grahams as the court found that Mr Turner made a promise that they would inherit the property in exchange for care and the Grahams relied on this promise.

This can happen anywhere, even in Dame Edna's backyard in Moonee Ponds so it is important that your estate planning involves identifying any potential claims against your estate and mitigating these risks. We also assist with preparation of evidence to support people who have done the right thing.

Donal Griffin is the Principal of [Legacy Law](), a Sydney-based legal firm specialising in protecting family assets, and author of 'An Irish book of living and dying' (the first book in the '[Be A Better Ancestor]()' series). Legacy Law is not licensed to give financial advice and this is general information.