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Editorial

The Prime Minister, **Scott Morrison**, found a new policy that Labor could not copy to give his campaign final week momentum, and amazingly among the wide range of important issues facing the nation, the debate has turned to superannuation. Who would have believed it? No other country devotes as much media debate and political capital to retirement savings.

Now the nightly news a few days before voting shows Mr Morrison standing in front of plans of land developments, telling young Australians that he has found a way for them to buy a home: raid their super because it's theirs to spend.

"It is their money. It's not owned by the super fund, it's not owned by the government, it belongs to them."

With median super balances around $50,000 for 35-year-olds, the **Super Home Buyers Scheme** would allow $20,000 from super for a first home buyer. The median house price in combined capital cities is $926,000, and $20,000 would not even cover stamp duty. It's a marginal policy for all but a wealthy young couple with high levels of super.

But it comes with a clever political twist, where on sale of the home, the amount taken out plus a proportion of capital gain must be put back into super. It allows Morrison to say it is not a raid on retirement savings, and even better, Labor hates it because they would prefer 'big unions' to control superannuation.

We take a deeper look into the merits of the proposal plus check the widening eligibility of the downsizer policy.

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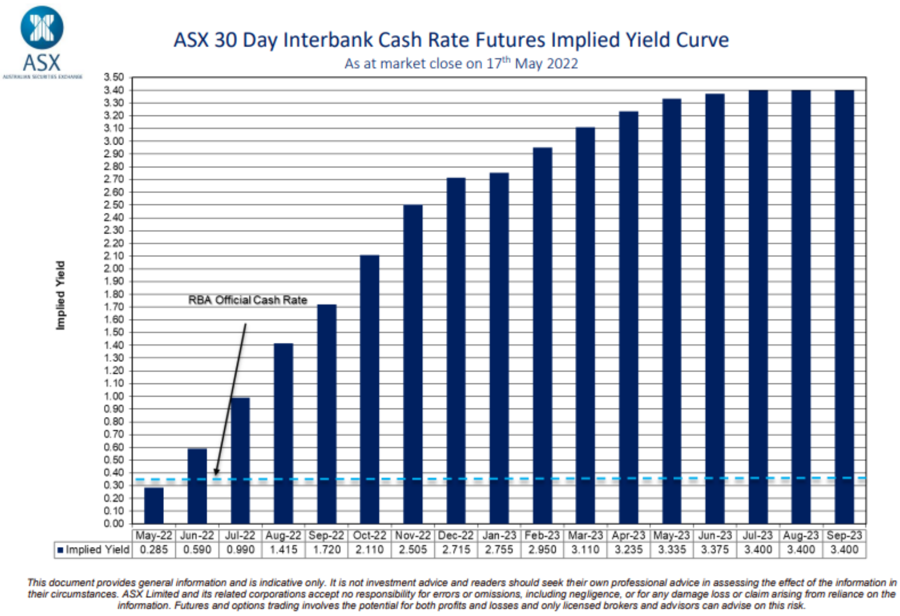
Anthony Albanese, facing a swing in the polls back to the Coalition, would have been relieved to see Wednesday's wages growth of only 0.65% for the March 2022 quarter, below analyst expectations of 0.8%. It allows him to run into the weekend with his 'real wages are falling' argument. **Gareth Aird of CBA** said:

"Today's data is consistent with our expectation that the RBA will deliver another 'business as usual' rate hike of 25bp at the June Board meeting – the Q1 22 WPI has certainly not made the case for a larger rate hike in June."

We all know cash rates will rise further. That is old news. The dilemma for the **Reserve Bank** is called 'threading the needle'. The hole for the thread is small and easy to miss. The central bank needs to raise rates enough to reduce economic activity to control inflation while not causing a recession. It knows Australians are especially vulnerable to rate rises due to heavily-indebted households, making each rate rise more powerful than in other countries. At the same time, election-drunk politicians are making spending promises and pushing fiscal policy in the other direction.

With these constraints in mind, the current pricing on cash rate futures would drive a recession and unaffordable additional mortgage repayments. **Governor Philip Lowe** knows how much impact falling house prices has on consumer sentiment, and the following rate levels would derail the economy.

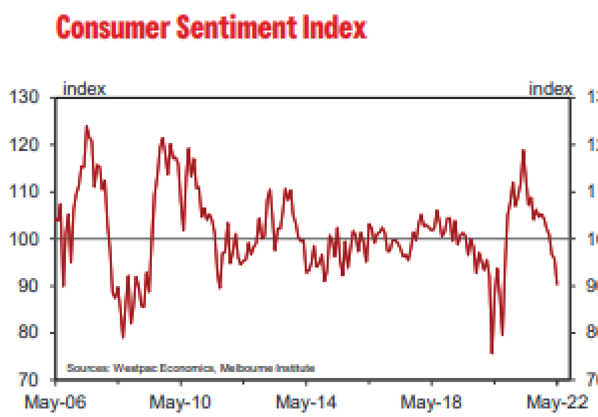


That's 3.3% within a year, taking mortgages to around 5.5%. Here are the major bank economist forecasts for where the cash rate will peak in this coming cycle.

- **CBA:** 1.6%
- **Westpac:** 2.25%
- **NAB:** 2.6%
- **ANZ:** 3%

CBA's official position, also quoted by CEO **Matt Comyn**, is that cash rates will rise to 1.35% by the end of this year and settle at 1.6% next year. He even welcomed modest falls in house prices for "affordability and stability". Comyn said at the release of his bank's quarterly update last week:

"We anticipate as we've seen in prior cycles that the Australian economy and consumer will be quite sensitive and responsive to changes in the cash rate, so therefore we think that the rate of inflation will be slowed by those cash rate increases, which will reduce demand in the domestic economy."



While I believe Comyn and his economists are a tad optimistic, moving cash 0.25% every month for the rest of 2022 would significantly dampen demand, with sentiment already falling. As shown below, the **Westpac-Melbourne Institute Index of Consumer Sentiment** fell by 5.6% to 90.4 in May.

There's an [excellent short video]() by my old mate (I sat next to him for a couple of years) **Bill Evans of Westpac** on Twitter.

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Anyone holding a share portfolio with allocations to tech and small companies knows their investments have taken a hit. **Morgan Stanley** estimates that the millions of amateur and first-time investors who came into the market in pandemic 2020 and enjoyed a stellar start are now facing [losses greater than their gains](). The calculation is based on US trades by new entrants since the start of 2020, when they initially outperformed the S&P500 Total Return index.

More startling are the individual stock losses, see next page (prices as at last week, unsourced). The incredible growth stories of each of these stocks are now gathering dust. We were riding **Peloton** equipment, watching **Netflix** day and night, **Zoom** became a common verb, documents were using **DocuSign**, **Coinbase** was delivering the world of crypto, and we were eating **Beyond Meat** burgers. What could go wrong?

Australia has dozens of its own examples of rapid rises and falls, especially in **BNPL**, online retail (**Kogan, Cettire, Temple & Webster, BWX**), tech (**Nuix, Xero, Audinate, Freelancer, Airtasker, Bluebet**) and asset managers (**Magellan, Platinum, Australian Ethical, Pinnacle, Janus Henderson**). Some of these are good businesses but prices ran too far ahead of revenues.

In the fund space, the best local example is the **Crypto Innovators** ETF (ASX:CRYP), which traded a record volume on Day 1 (3 November 2021 where $8 million was invested in the first 45 minutes). It looks like the worst timing possible, as it quickly peaked at $12.41 and has been as low as $2.75. Those who jumped on this narrow thematic are facing an expensive reality check.

We warned in February 2022 that crypto was no place for retirement savings:

"Firstlinks has been criticised for not understanding the potential of cryptocurrencies, which is fair enough, but it is too volatile and unpredictable for a major role in retirement investment."

Company	Current value of 10'000$ invested	Difference
PELOTON	871 USD	-91%
robinhood	1'118 USD	-89%
affirm	1'166 USD	-88%
Lemonade	1'597 USD	-84%
DRAFT KINGS	1'702 USD	-83%
TELADOC.	1'751 USD	-82%
Roku	1'788 USD	-82%
BEYOND MEAT	1'944 USD	-81%
DocuSign	2'180 USD	-78%
coinbase	2'264 USD	-77%
zoom	2'272 USD	-77%
NETFLIX	2'469 USD	-75%

Graham Hand

Also in this week's edition ...

In an exploration of the value of versatility, **Andrew Macken** explores the power of being a multidisciplinary generalist when it comes to investment returns and life.

A recent poll of financial advisers and accountants by **Accurium** shows the reduction in the minimum pension requirements by 50% since 2020 (and now extended to FY2023) is a popular change. Almost 75% of responses indicated clients had reduced pension drawdowns. **Jon Kalkman** makes the case for a permanent change in this policy to add greater certainty to retirement planning.

With the sell-off in many stock markets has come a widening of discounts to the Net Tangible Assets of the share prices of many Listed Investment Companies (LICs). **Hayden Nicholson** shows the extra returns possible if some of these managers return to more normal levels.

There is a tall wall of worry that has stood forebodingly in front of investors recently. Yet many of these issues such as the war in Ukraine, monetary tightening, inflation, (or its more feared cousin, stagflation) vary in their degree of severity across regions. **Randal Jenneke** explores the impact to Australia.

Max Cappetta says investors should keep an eye out for opportunities in the next two months as ASX-listed companies try to manage shareholder expectations ahead of the August reporting season and as the RBA's cash rate normalises. He also highlights three companies mispriced by the market.

Continuing with the macro theme, **Peter Moussa** delivers the case for bonds as recession risk bears down on global markets.

For added fun on Saturday night, play our **Election Bingo Card**. The clichés the politicians and commentators rely on are sure to get a run, and listen for the earnest humility in any acceptance speeches. Extra points for every time someone says 'interesting' which has become a curse in our language. For some reason, everything is suddenly 'interesting'. Try to complete a row or column, while all 36 boxes might require an all-nighter.

HUMBLE	DREAMS	TEAL	CHINA	BELLWETHER	TOO CLOSE TO CALL
CONGRAT-ULATIONS	CLIMATE	MINORITY	TOGETHER	DEFICIT	LANDSLIDE
MIRACLE	SAFE AND SECURE	REGIONAL	HUNG PARLIAMENT	TAX CUTS	WOMEN
UNITE	HOME	WESTERN	BALANCE OF POWER	TRICKLING IN	CARERS
RETIREMENT	APPRENTICE	COST OF LIVING	DEVASTATING BLOW	RECORD SWING	UNPRECE-DENTED
WORKERS	HOSE	FAMILIES	INTEGRITY COMMISSION	HIP POCKET	MANDATE

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'It's your money' schemes transfer super from young to old

Graham Hand

Following the announcement of the new Coalition policy to allow withdrawals from super to buy a first home, leading economist Saul Eslake wrote in *Crikey*:

"We now have almost 60 years of unambiguous and unequivocal evidence telling us that anything that allows Australians to pay more for housing than they otherwise would - first homeowner grants, stamp duty concessions, mortgage deposit guarantee schemes, shared equity schemes, preferential tax treatment for property investors, and indeed lower interest rates or reductions in credit standards - results, primarily, in higher house prices rather than higher rates of home ownership."

Another policy modification will reduce the age to 55 for making downsizer contributions to superannuation.

There is an unintentional symmetry in these two policy initiatives whipped up in the final week of the 2022 election campaign. First home buyers can take money out of super to buy a home from older owners who can put the money back into super.

Saul Eslake estimates the purchasing power for a couple may rise $500,000 (based on taking $100,000 from super adding to a deposit and borrowing four times as much), making it feasible to pay $500,000 more for a home which is almost the amount that an older couple can add to super.

It's a potential transfer of super from younger to older generations, regardless of how much the latter already holds in this tax-advantaged environment. Older, wealthier people with more in super and younger people with less ... is that what super schemes should facilitate?

It's your money

A week out from the election, Prime Minister Scott Morrison found a 'wedge' policy, something Labor will not match, giving him a point of contention with an "*It's your money*" theme many aspiring homeowners will like.

The election campaign proves again that superannuation is never far from the headlines of Australian politics, especially when combined with the hot topic of housing. However, a deeper look at the changes shows the debate is barely worth the profile as a major issue in the final days. The policy will help a small number of people to own a home sooner compared with genuine initiatives to make home ownership more affordable over the longer term.

Details of the two new superannuation policies

Let's look closer at the two so-called 'gamechanger' policies.

1. First home buyers can withdraw up to $50,000

The new policy allows first home buyers to withdraw up to $50,000 from super provided it is less than 40% of the super balance, requiring $125,000 in super to draw the maximum. Money taken out must be put back when the house is sold, including a proportion of capital gain.

The ASFA table below shows average super balances for people aged 30 to 34 are between $51,175 for men and $42,240 for women (it's from 2019 but the latest available). It's only when men are over 40 and women are over 45 that average balances exceed $120,000. With a 10% super guarantee, a person earning a healthy $100,000 putting $10,000 a year into super compounded at 5% annually would take 10 years to reach $125,000.

Table 1: Superannuation balances by age and gender, June 2019

	Male			Female		
Age	Number with super	Average account balance $	Median account balance $	Number with super	Average account balance $	Median account balance $
under 18	40,647	14,170	369	35,343	9,901	184
18-24	943,241	8,072	4,131	896,324	6,994	3,772
25-29	975,249	25,173	17,495	917,104	21,774	16,956
30-34	993,167	51,175	38,764	933,766	42,240	32,904
35-39	940,888	83,723	65,220	867,102	66,611	50,108
40-44	836,197	121,119	92,303	777,041	92,680	65,840
45-49	849,692	165,587	118,686	807,868	122,228	80,303
50-54	754,471	214,795	139,444	720,869	157,124	92,671
55-59	723,564	286,283	162,337	689,700	209,653	109,639
60-64	585,626	359,870	178,808	553,207	289,179	137,051
65-69	415,906	414,380	189,856	386,656	370,042	180,718
70-74	280,147	464,565	195,656	249,745	403,268	188,006
75 or more	242,572	436,370	144,773	187,062	380,386	139,579

Source: https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2018-19

On the campaign trail, Scott Morrison has issued many statements about offering flexibility and choice with super: *"This is about increasing the choices available to you, with your super. It's your money."* He told Tracy Grimshaw on A Current Affair, when she said super is for retirement: *"I'm sorry, it is their money. It's not owned by the super fund, it's not owned by the government, it belongs to them."*

Criticisms came from many quarters, especially within the superannuation industry, due to:

- Upward pressure on house prices
- Loss of superannuation intended to fund retirement
- Possible extension to other worthy schemes, such as buying an electric vehicle or starting a business.

There is already a First Home Super Saver (FHSS) scheme which allows voluntary super contributions of up to $15,000 each financial year and from 1 July 2022, up to $50,000 can be released. That means a couple could take up to $200,000 from super. Compulsory contributions under the SG are not included.

It is also already possible to purchase an investment property with superannuation funds (such as through an SMSF) but members are not permitted to live in it.

Many younger people will withdraw money from super if given the chance. The Government allowed access to up to $20,000 at the start of COVID. Qualification was relatively easy and almost $38 billion was released based on 4.8 million applications.

However, superannuation was designed to provide money to live on in retirement, which is why there are complex preservation rules that allow some access at 55 but most must wait until 65. By invoking an '*it's your money*' philosophy, the Government is undoing the original principles of superannuation. Mr Morrison said that superannuation belonged to Australians and "*We're not going to tell them what to do with it, they'll make their own decisions".*

This is a false claim to justify the policy. Other than in limited cases, superannuation is locked away for retirement until a Condition of Release is met. We **do** tell people "*what to do with it*".

2. Allow people over 55 to make downsizer contributions

The Prime Minister also announced that the Coalition will allow Australians aged 55 and over to contribute up to $300,000 ($600,000 for a couple) to their superannuation when they sell the family home. This contribution is not subject to the usual cap on superannuation amounts.

In fact, the money does not need to come from the sale. A house can be sold for $1 million and another bought for $1 million, and a couple can put $600,000 into super from another source.

It is a variation on the existing downsizer contribution which currently applies for people aged 65 years or older, but the eligible age is moving to 60 on 1 July 2022. The new rule extends this to the age of 55. It looks like an election gimmick as the agreed move from 65 to 60 is not even effective yet.

This ability to increase super has been a good benefit for older retirees. Since 1 July 2018, downsizer contributions totalling almost $10 billion have been made into tax-advantaged retirement savings vehicles.

This policy is likely to be used by retirees who are not receiving the age pension as the net proceeds from the sale of a home transfers capital into super, which is measured in the age pension eligibility test. It is of best use to people with over $1.6 million in super who currently cannot make additional non-concessional contributions.

But it adds little to retirees below the cap. Using the bring-forward rules, from 1 July 2022, someone aged 55 could put $330,000 into superannuation every three years already. They could sell their house now and put it into super.

So this policy is helping the already-wealthy with large super balances who will be able to protect another $600,000 from high marginal tax rates.

Home versus super in retirement

Many economists warn that further releases to buy homes will add to property prices. For example, CPA Australia's General Manager, Jane Rennie, told the AFR:

"We caution against implementing any demand-based solutions that may inflate house prices further, such as the Coalition's Super Home Buyer Scheme or Labor's Help to Buy policy. We don't support the use of mandatory superannuation contributions for purposes which are unrelated to retirement savings, like home ownership."

However, buying a home does contribute materially to financial independence and ultimately retirement saving. Although superannuation comes with significant tax benefits, so does owning a home, especially in retirement. The family home is excluded for eligibility for the age pension and also capital gains tax and other social security rules.

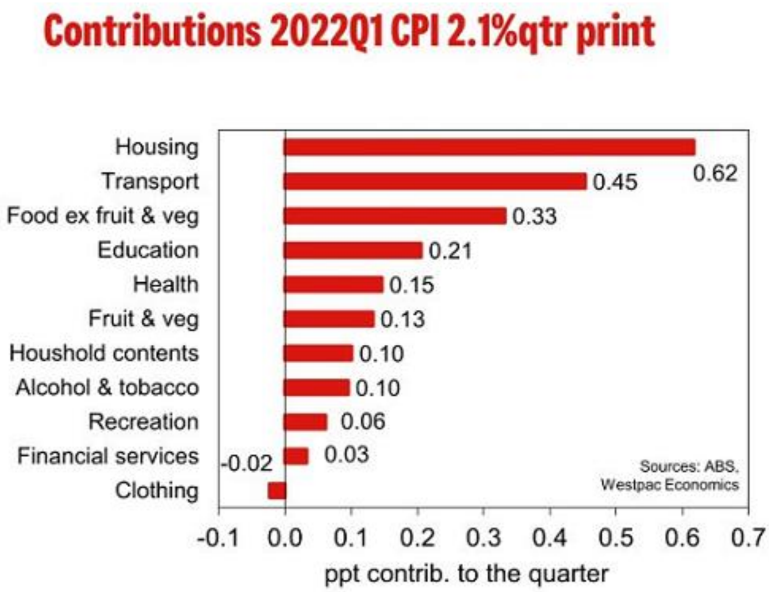
When the industry body, ASFA, quotes its retirement standards for modest ($38,997) or comfortable ($59,837) annual incomes, it assumes retirees own their own home and are in good health. It is a massive step to financial security for people to own their own house rather than rent when they no longer earn a salary.

Scott Morrison is correct that helping people buy a house is a major retirement issue. He said:

"The best thing we can do to help Australians achieve financial security in their retirement is to help them own their own home."

What he refuses to acknowledge, which even Superannuation Minister Jane Hume conceded, is the extra purchasing power may be eaten up in higher prices. The measure is yet another demand-side initiative. The McKell Institute estimates that buyers accessing an additional $40,000 from their super will add between $31,000 and $100,000 to prices depending on the capital city.

Another possible impact is further fuel on the inflation fire, and the Westpac table below shows a major factor in the recent spike in inflation was housing costs. While interest rates are rising at the moment and pushing prices down, this policy is not due to come into effect until 1 July 2023 when the rate rise cycle may have paused.



The devil in the detail

As a policy announcement rushed out in the last week of the campaign, many questions remain unanswered.

1. Does a person need to record the value of the share of the home belonging to super to ensure the amount in super for retirement is accurate?
2. What is the process of allocating the super fund's share, given the vast number of major and minor improvements made to a family home over decades? Will there be a deduction on the improved value for the cost of a new fence, paving the courtyard or replacing the lights?
3. What are the reporting obligations? How will the ATO ensure the correct value is returned to the super fund in 30 years?
4. Will the amount returned to super be exempt from all contribution cap rules in the relevant year?
5. How will the policy affect labour mobility and future house purchases when sale proceeds are not available for the next rung on the housing ladder?

And watch for property spruikers promoting super access as a way to enter an overheated market.

At some stage, it would not surprise if the monitoring and measurement complications remove the need to return the money to super, or at least allow a rollover to another home.

A two-tier opportunity?

For most people, home ownership in retirement is vital for security and wellbeing, and policies should assist this goal. Many young people will be happy to trade off future super balances for earlier home ownership.

Whether it is financially beneficial depends on a complex mix of rates of return on super versus house prices, costs of renting, borrowing expenses, relative taxation treatments and social security implications. Buying a home also comes with significant leverage. In Australia where leases are short and renters are regularly moved out at little notice, there is considerable 'psychic income', as economists call it.

But it's likely the first home owner policy is another step to inequality in housing and superannuation balances. Eslake goes as far as saying the policy will be:

"Greeted with despair by first home buyers who will see it rightly as pushing their dreams further out of reach."

The average age of a first home buyer is 36, and they make up about 30% of the market. For those with the average super for a 30- to 34-year-old of about $50,000, access to 40% or $20,000 will not help much towards the average house costing $1 million, even if doubled for a couple. This policy will not bring lower-paid workers or those without substantial other savings into the system.

However, a couple earning more money, perhaps a little older, might have $100,000 each in super and can access $40,000 each or $80,000. This is a decent boost to add to their own, say $120,000, giving a deposit on a $1 million home. Borrowing capacity is also enhanced by a larger deposit.

But this wealthier couple was already well on their way to owning a home, so it's likely to purchase was brought forward. The policy has no income or property value caps. As Crikey revealed, the 1998 budget measures paper reported:

"A superannuation for housing scheme could not be targeted efficiently to those individuals who would not otherwise achieve home ownership before retirement. It would also reduce retirement incomes and national savings."

The question is whether there are enough of these people that prices will be driven up. A particular risk appears around 1 July 2023 when additional buying power is injected into the home market in a particular segment.

Add the relaxation of the downsizer age to policies offering broader access to the Seniors Card and cheaper medicines, Labor's dumping of capital gains tax and negative gearing changes, and the continuing favoured status of the family home, and we have another election favouring older voters. It's as if the Government wants to transfer super benefits between generations and the older folk win again. OK, Boomer.

Graham Hand is Editor-at-Large for Firstlinks. This article is general information and does not consider the circumstances of any investor, and is based on an understanding of the proposals at time of writing.

Rising recession risk and what it means for your portfolio

Peter Moussa

Markets have been resilient in the face of rising rates, escalating geopolitical tensions and fresh lockdowns in China. The strength of the US economy is the key reason, accelerating 6.9% annualized in the fourth quarter. While growth is strong, the question remains: How sustainable is it, and is a recession likely in the near term?

To answer where we are headed, we need to look at where the growth has come from, especially as we emerge from global lockdowns. The answer lies in the record stimulus used to offset pandemic impacts. With lockdowns lifted, we are left with the consequences of increased money supply during a period of supply chain issues; the result of more money chasing fewer goods led to the inflation we see today. This can become a problem if the growth impulse from the stimulus fades while inflation remains sticky, largely due to China's renewed lockdowns crippling supply chains.

The way central banks combat inflation is by raising interest rates to slow demand, which should give suppliers time to replenish inventories. Again, this picture becomes muddy if net global exporters are back in lockdown.

What's clear is that central banks around the world are unlikely to pivot from their hawkish stance anytime soon as inflation becomes one of the biggest concerns for the average consumer.

When growth slowed during the initial 2020 lockdowns, central banks turned to the 'wealth effect' to encourage spending, loosening financial conditions to help boost asset prices. As superannuation fund values rose and home values increased, it encouraged higher spending and consumer confidence. Today, regulators are faced with the opposite dilemma - the economy is too hot, and inflation is rampant. The rhetoric from central banks on aggressive rate hikes is partly intended to cool the wealth effect, which should create volatility across asset markets. Today, financial conditions remain loose, meaning central banks need to do more to tighten conditions.

Rate hikes have been well communicated and bond markets have reacted with one of the most aggressive sell downs in anticipation of a rising rate environment. The question is how hard central banks can tighten without collateral damage in other parts of the economy. Since the start of the pandemic, the world has much higher debt levels, both in the public and private sectors, so the terminal rate for many parts of the world is less than where it was pre-pandemic. This means there is only so much central banks can raise rates before they turn to alternative methods to tighten financial conditions, such as quantitative tightening or stronger lending regulation to slow credit.

Forward rate curves have now priced in a cycle of rate hikes in Australia and the US. This could bring interest rates to 2.6% and 2.8% respectively by the end of 2022, according to Bloomberg. The resulting fixed income sell-off has seen parts of the yield curve invert, signaling that while we will get rate hikes in the near term, central banks will eventually have to pivot back to loosen policy down the track. Eurodollar futures suggest this pivot could happen in late '23 or early '24 to combat a future economic slowdown.

Case for bonds

This insight is important for bond investors as it suggests we are potentially at peak central bank hawkishness. Citi analysts note there is a 70% probability the market is priced at the peak of longer-term yields. Citi has also recently downgraded growth forecasts from 3.5% to 1.9% for 2022, citing a decline in disposable incomes due to high inflation and the rising cost of credit. While we need two-quarters of negative growth to officially label a slowdown a recession, slowing growth will still impact portfolios, and the pace of the slowdown also matters. As the yield curve inverts and real rates turn positive, we could see the calls for a recession get louder. For now, those calls are premature, but it is worth noting that we will hear more about this topic, which will no doubt impact investor sentiment. Anticipating a deterioration in future sentiment means investors could start to position more defensively today.

For a long time, investors had no alternative to risky assets, such as equities, because yields were pinned near zero. Today, this is no longer the case, and investors can go back to diversifying across the risk spectrum. Should growth slow or be revised lower, high-quality bonds should offer strong diversification for portfolios, with the potential to outperform riskier asset classes while paying a positive carry.

Historically, during periods of slowing growth and rising rates, bonds have historically outperformed. If we are at peak hawkishness, it means that the market may need to unwind some of the hikes already discounted in the bond market. If this is the case, then adding high-quality bonds to portfolios could be a valuable proposition to take advantage of the recent sell-off in the asset class. Investors should also understand the pace of quantitative tightening could continue to push yields higher. This is due to the Federal Reserve no longer purchasing treasuries as part of its balance sheet run-off and treasury demand now needing to be absorbed by the private sector. However, this demand historically rises during periods of slowing growth.

While it remains too early to call for a recession, growth is clearly starting to slow. This is perpetuated by a higher cost of living and lower disposable incomes. Unfortunately for markets, central banks won't be able to step in to backstop markets with easing while inflation is a key issue. This means that even as growth slows, we are unlikely to see a strong pivot from central banks on their tightening path which could create added risk in equities for the next few quarters. While the rate hikes have been well flagged by markets, the backdrop of meaningfully slowing growth in the second half of the year with tighter policy is likely to lead to added risk for equities. In this environment, safe-haven assets, such as treasuries, act as a good diversifier given the uncorrelated nature to equities during periods of risk-off, while offering a yield above term deposit rates.

Peter Moussa is a Senior Investment Specialist at [Citi Australia](), a sponsor of Firstlinks. Any advice is general advice only. It was prepared without taking into account your objectives, financial situation, or needs. You should also obtain and consider the relevant Product Disclosure Statement and terms and conditions before you make a decision about any financial product. Investors are advised to obtain independent legal, financial, and taxation advice prior to investing. Past performance is not an indicator of future performance.

'Multidiscipline': the secret of Bezos' and Buffett's wild success

Andrew Macken

In his excellent book, 'Range. Why Generalists Triumph in a Generalist World', David Epstein tells the story of the *figlie del coro*, literally, 'daughters of the choir' in Venice in the seventeenth century.

The all-female *figlie* dominated European music for a century, becoming famous celebrities and inspiring great composers like Vivaldi. Yet they had humble origins, with many beginning their lives as orphans.

So what was the secret behind the *figlie's* remarkable musical success?

Versatility.

Unlike many musicians, the *figlie* didn't specialize in one instrument. Instead, they learnt to sing and to play every instrument their institution owned. Some of the instruments the *figlie* learned are so obscure that today they remain completely unknown.

It was this extreme versatility, developed over many years, that gave the *figlie* a unique power: they could discover the essential concepts that underpinned, not just one instrument, but all instruments. The *figlie* didn't master individual musical instruments, they mastered the abstraction of *all* musical instruments. This allowed them to effortlessly move between musical instruments, relying on useful generalisations, rather than instrument-specific techniques.

The value of versatility

This same ability can also be found in many of the world's great investors – the ability to abstract away the specifics of a particular domain, leaving only the important underlying principles upon which great investments can be made.

Warren Buffett's Berkshire Hathaway is a large conglomerate of many different kinds of businesses, from insurers, to rail, to utilities, to industrial manufacturers, retailers and even auto dealers. At the same time, Berkshire has a $US200 billion investment in tech giant Apple.

How is it that one man (or perhaps two, if we include his partner Charlie Munger) can build such an impressive portfolio of seemingly unrelated investments?

The same question could be asked of Jeff Bezos and Amazon. How could Bezos build such a disparate empire across retail, enterprise computing, consumer hardware, video and digital advertising?

Buffett and Bezos both have the unique skill of stripping away detail and get to core principles of successful investing and business building.

But they can only do that because they had years of diverse experiences that allows them to see the common principles that work across multiple domains.

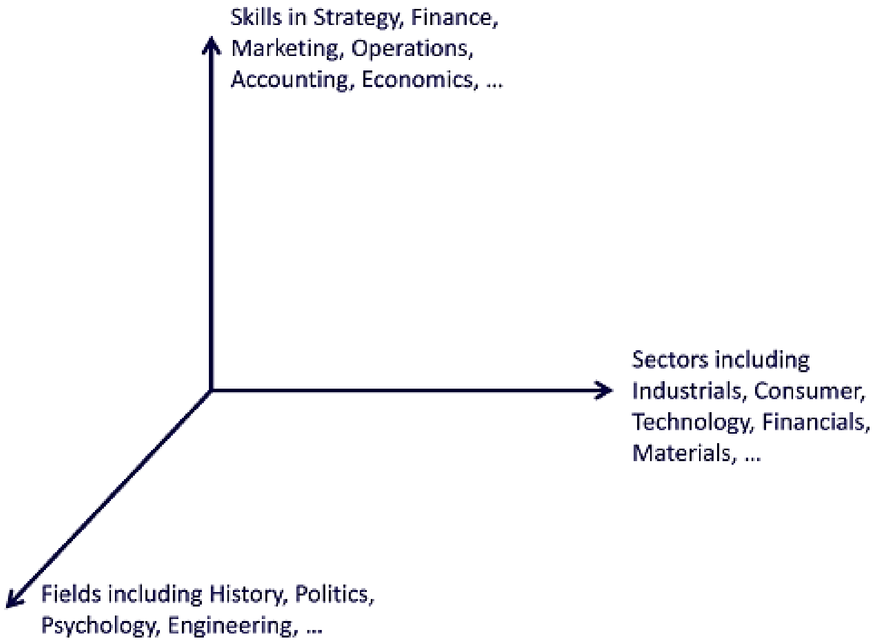
And we see the benefits of multidisciplinary versatility not only in investing. Tennis great, Roger Federer, grew up skiing, wrestling, swimming, skateboarding, basketball, handball, table tennis, badminton and soccer. Federer has cited his diversity in experience and skill development as important drivers of his superior hand-eye coordination.

In a complex, ever-changing world, where domain-specific information is becoming commoditised and readily available, 'multidisciplinary' investing has become one of the true sources of an investment edge. Successful investments are often found at the intersection of multidisciplinary insights.

Investors need to not only develop their own multidisciplinary investment process, but also learn to identify managers who have the skills and structures that allow them to harness the power of multidisciplinary investing.

From specific to generalist investing

If investors are to develop the skill of converting domain-specific insights to general economic principles – and unlock successful investments at the intersection of multidisciplinary insights – they need to become 'versatile'.



In the context of investing, we would define versatility as the ability to successfully employ a wide range of mental models to comfortably traverse along the unique dimensions of a set of multidisciplinary experiences, knowledge, and skills.

In his famous 1994 address to USC Business School, Charlie Munger shared his views on what he calls 'Elementary Worldly Wisdom' as it relates to investing.

"You've got to have models in your head. And you've got to array your experience – both vicarious and direct – on this latticework of models… And the models have to come from multiple disciplines – because all the wisdom of the world is not to be found in one little academic department."

Munger goes on to stress the importance of mathematics, probability, accounting, engineering, psychology and building a deep understanding of human nature.

The common factor underpinning massive (unrelated) winners, Costco and Amazon

When investors become versatile across multiple domains, they become skilled at converting domain-specific insights into economic principles common to all domains.

Investing great, Nicholas Sleep, owned a long-term investment in Costco, the big box retailer. At the same time, he owned Amazon, the ecommerce and cloud computing hyperscaler. But his thesis for both investments was essentially the same.

Sleep abstracted away the specifics of the businesses – most of which were totally different – and saw powerful 'flywheels' that were gaining momentum and would be very difficult for competitors to overcome.

Sleep saw that both companies, Costco and Amazon, were building scale and sharing the benefits of those scale advantages with customers. This, in turn, drove customer growth and increased loyalty which, in turn, drove more scale.

Sleep's many years spent developing multidisciplinary experiences and skills enabled him to convert the specifics of Costco and Amazon to the important underlying economics principle of a powerful 'flywheel'.

Becoming a multidisciplinary fund

Despite the undoubted power of multidisciplinary investing, the investment industry is still largely built on the principle of specialization.

Most investment firms are structured as 'pods of domain specialists'. An analyst covering banks, for example, has likely covered banks exclusively for the last decade and has little, if any, experience in other domains.

A multidisciplinary-based investment team looks quite different. They are typically characterised by:

- A team of generalists, rather than a team of specialists
- A relatively flat team structure that enables 'cross-pollination' of ideas and perspectives
- A team of individuals with diverse prior experiences; and
- Incentive structures that encourage group success over individual success.

That is exactly what we are seeking to do at .

Montaka's investment team is structured in a way that seeks to emulate the multidisciplinary success of the investing greats. Each team member is a generalist from day one and covers businesses across multiple domains.

Multiple team members also overlap on the same industry – and even the same business. By bringing together multiple team member perspectives, and drawing on their multidimensional set of prior experiences, we increase the probability that we will uncover the important underlying economic principles that can lead to a substantial investment opportunity.

Unlocking the multidisciplinary magic

For three decades, NASA couldn't predict solar particle storms. It was an important problem to solve because the radioactive material ejected from the sun can gravely damage astronauts and their equipment in space.

Yet, as Epstein points out in Range, the problem was solved in 2009, just six months after NASA decided to 'crowdsource' ideas for solutions from the general public.

A retired engineer from rural New Hampshire used a completely different methodology to rapidly solve a problem that stumped NASA's smartest mathematicians.

Esptein's core idea is that the magic happens – the true insights are generated -- at the intersection of multidisciplinary ideas and experiences. That is also true in investing.

Andrew Macken is Chief Investment Officer at [Montaka Global Investments](), a sponsor of Firstlinks. This article is general information and is based on an understanding of current legislation.

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Keep mandatory super pension drawdowns halved

Jon Kalkman

The Government recently extended the reduced mandatory drawdown rates required for superannuation pensions for a further 12 months to 30 June 2023.

Mandatory withdrawals from a pension fund are the flip side of the benefit of having a super fund that pays no tax on its earnings in retirement. Prior to 2007, withdrawals from a super fund were governed by annual maximum and minimum factors which were set by a person's life expectancy and so they changed annually. The changes in 2007 removed a maximum and set the minimum withdrawals into the following bands that have remained unchanged since.

Age	Factor
<65	4.00%
65-74	5.00%
75-79	6.00%
80-84	7.00%
85-89	9.00%
90-94	11.00%
>95	14.00%

Why we have mandatory withdrawals

The purpose and effect is to reduce the amount of tax-advantaged money remaining in the fund at death to be passed on to beneficiaries. It does this because, at the point where the fund's investment earnings are insufficient, super funds need to liquidate assets to satisfy this regulation.

A super pension fund cannot accept new contributions, so assets thus sold or money drawn out cannot be replaced and are unavailable to support the pension in later years.

The Government has modified these drawdown rates in times of increased market volatility, such as the GFC and the COVID pandemic. In such times, the argument goes, super funds may need to liquidate assets at fire-sale prices and thereby increase the rate of asset depletion.

The Retirement Income Review identified that claims on the age pension increase with age as superannuation assets become exhausted. Increased rates of asset depletion and higher mandatory drawdowns, accelerate this process.

Changed circumstances since 2007

Even without periods of extreme volatility, our economic circumstances have changed since 2007, as follows:

1. Lower investment returns

Many retirees are very conservative in their investments, preferring the certainty and lower returns of cash and fixed interest to the risk and higher returns of other investments. Money held in a term deposit in 2007 could earn 8%. The same investment today might earn 1%. This dramatic reduction in income has meant the liquidation of assets much sooner than anticipated, or a search for yield higher up the risk curve which brings its own volatility. Lower returns hasten the day when the super pension fund is exhausted and retirees claim the age pension.

2. Longevity risk

This is an increased risk that retirees will outlive their money. The risk can be minimised by starting with more money, earning a higher return on our investments, or not living too long (!).

Although none of us know how long we will live, the life tables offer some guidance. A male age 65 might expect to live for another 20 years and a female of the same age might expect to live for another 22 years. Many retirees will have partners and for over 70% of them, one member of the couple will reach age 90. If these retirees are to remain self-funded, their super fund needs provide a pension for many years, but these high drawdown rates work against them.

Prior to the 2013 election, the Coalition, then in opposition, promised to review these drawdown rates to take account of our increased longevity. That promise was never kept. The present system forces people to take more money from their super than they need when they are relatively young, leaving them with less as they age.

Paul Keating, the original architect of the super system, has admitted that under his original design, super was not expected to last beyond the age of about 85 and suggested that we introduce some sort of longevity bond to manage this risk. Clearly both sides of politics acknowledge that the present super arrangements do not manage longevity risk very well.

Transfer Balance Cap now limits super

The Retirement Income Review identified 11,000 people with more than $5 million in super and the AFR reported (16 July 2021),

"Twenty-seven of Australia's biggest self-managed super funds held more than $100 million each in concessionally taxed savings in the 2019 financial year, including one mega-SMSF that has hoarded $544 million."

By contrast, the average SMSF size in 2020 according to the ATO was $1.3 million, but this is an average of all SMSFs including those just beginning, along with those with very large super balances. The median SMSF was only $733,000, or half the size of the average.

A retired couple with a median SMSF would still be eligible for a part age pension.

These large super funds exist because prior to 2007, unlimited non-concessional contributions were allowed. Prior to 2017, these funds would have been held in zero-taxed pension funds in retirement to take advantage of the tax-free environment.

Therefore, mandated drawdowns in pension funds were logical because they forced increasing amounts of money out of this generous tax environment to face normal tax rates.

The Transfer Balance Cap (TBC) introduced in 2017 fundamentally changed this situation.

The TBC forced the transfer of money in excess of the cap into accumulation funds. These funds are now subject to (concessional) tax on income, but importantly, these funds are no longer subject to mandatory drawdowns and so they continue to grow while enjoying generous tax concessions. Eventually, these funds will disappear because death is a cashed-out event but until then they make excellent estate planning investment vehicles.

However, the money remaining in super pension funds, under the TBC, is still subject to mandatory drawdowns that were designed to deal with quite a different situation.

Taxing super pension funds would make them redundant

The presence of these large accumulation funds distorts the discussion of tax concessions to super and so-called subsidies to the wealthy. There are frequent suggestions that super pension funds should be taxed at 15% to reign in super tax concessions even though pension funds have been tax-exempt since 1992 when these funds had much larger balances.

It is even less applicable now that there are these large concessionally-taxed accumulation funds that would not be subject to a new pension tax. Indeed, with the introduction of such a tax, pension funds would become redundant because accumulation funds would offer the same tax concessions without mandatory withdrawals. That really would encourage the use of super for estate planning.

The concern about tax concessions going to pension funds is misplaced because the TBC has already severely limited these tax concessions. Pension funds now only support retirees who are trying to manage asset allocation against cash-flow as well as inflation risk, market risk and longevity risk over a long retirement.

The current halving of mandatory drawdowns for superannuation pensions does not limit how much retirees can withdraw from their super but it provides them with much greater flexibility in these uncertain times of low investment returns, rising inflation and increased longevity. If the government is serious about encouraging self-funded retirees to remain self-funded for as long as possible, thereby ensuring that super reduces the long-term cost of the age pension, it should make the halving of these mandatory pensions, permanent.

Jon Kalkman is a former director of the [Australian Investors Association](). This article is for general information purposes only and does not consider the circumstances of any investor. This article is based on an understanding of the rules at the time of writing.

Confession season is upon us: What's next for equity markets

Max Cappetta

The cash rate is on the path to normalisation following the Reserve Bank of Australia's May rate rise. Governor Philip Lowe indicated that 2.5% was a more "normal level" but left scope to take a more nuanced path based on "evidence and data". Key areas of interest are inflation – entrenched versus transitory – and whether high employment will result in wage increases.

Has this changed anything for equity investors? Not really

From a local perspective, our economy is strong with low unemployment and household spending power (including more than $250 billion of extra savings since the pandemic arose). This is a good environment for corporations and their profitability, driving future shareholder dividends.

What remains under pressure is equity pricing as higher interest rates impact the valuation of shares. Notwithstanding such headwinds, there are still some areas of the market which are expected to fare better than average, and these include:

1. **Commodities** – continued high cash flow on elevated prices and continuing long-term demand trends.
2. **Financials** - improvement in net interest margin. We expect mortgage rates to increase alongside the RBA cash rate while interest on deposits will lag. Insurers will start to roll short-term investments to higher rates.
3. **Dividends** – ANZ Bank's results delivered an interim dividend of $0.72 per share (2.6% cash, 3.8% grossed up) for the half-year. Whether or not the banks pass-through rate rises to deposit holders,

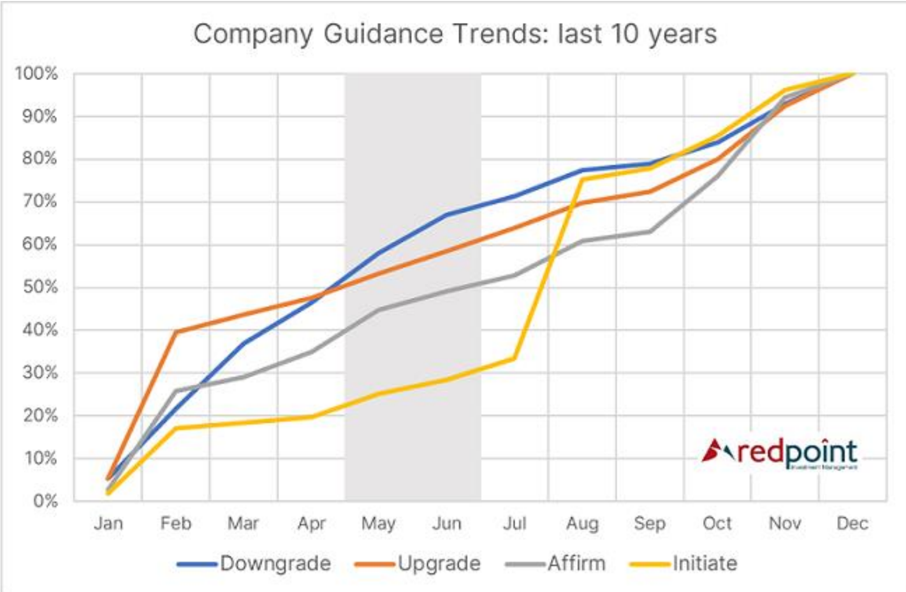
investors can still find good yields across a range of Australian equity market sectors. Share prices are volatile but they provide long-term growth to counter the effects of inflation while bank deposits and term deposits simply do not.

What should investors be on the lookout for?

Look for companies that are going to miss expectations when they provide an update for investors ahead of any formal results announcements in the August reporting season.

Companies tend to pre-position weak results in the two months to June 30, leading to a slew of downgrades. The next two months will be critical for investors as a shift from 'great expectations' to 'clear explanations' gets underway. The chart below shows that, on average, 70% of all downgrades in a calendar year at announced before the end of the financial year. It will be these events that investors need to be on the watch for in the coming weeks.

Specific issues facing Australian companies are inflation, increased costs for businesses - especially from energy and wage pressure - and the ongoing pandemic lockdowns in China resulting in supply chain disruptions with our biggest trading partner.



The recent US reporting season is a good case in point. It saw approximately every three out of four companies meet or beat expectations, but the high growth names still struggled as their results were lackluster. High valuation, high expectation stocks in Australia are at risk of price falls if they fail to meet their targets.

Concerns and opportunities

The good (Wisetech and Altium) and the bad (Tyro Payments, Megaport and Zip Co).

Revenue growth in the technology sector is on track but profitability on incremental growth continues to disappoint. TYR, MP1 and ZIP have been significantly de-rated and will need a major catalyst to revert in the near term. Low prices could make them takeover targets, but profitability still seems a long way off.

We prefer global logistics giant Wisetech and circuit board design software firm Altium. Both companies have de-rated since January but nowhere near the falls which have beset Tyro Payments TYR, Megaport MP1 and Zip Co ZIP. Our metrics point to potential upside in their next results, which should at least provide support for their current price.

Altium is now back to where the company had originally been bid for in mid-2021. There is still room for growth, as the design of appliances evolves, requiring a redesign of internal circuit boards. Altium's software is a market leader in this area, and we see the potential for incremental improvements in profitability: an expected 25% increase in revenue over the next two years is expected to grow earnings-per-share (eps) by 50%.

When it comes to discretionary spending and travel, tighter purse strings may well flow through to a cutback in spending. Here we like JB Hi-Fi.

We see concerns with Domino's Pizza DMP as the consumer seeks to reengage outside of home dining, and some uncertainty still lingers over travel demand which will impact Flight Centre FLT, Qantas QAN and Corporate Travel CTD.

We still like JB Hi-Fi and believe that its valuation is factoring in too large a contraction in revenues. Pre-Covid-19, the stock traded at a high of $45. Even with earnings contracting in the next two years, the company is still set to deliver 50% higher profitability, but its share price is only 10% higher than its pre-Covid peak. JBH gave a Q3 sales update on 4 May, highlighting heightened customer demand and strong sales growth which were up 11.1% year-on-year. There are potential short-term headwinds with no guidance being provided with their latest sales update, due to ongoing global supply chain uncertainties, but there is a solid, profitable underlying business here with a strong market presence.

Beware the 'gap'

Rising equity market volatility is typically a 'down-side' phenomenon. If we consider the market price when the number of large 1-day moves (plus or minus 1%) increases, we note the market is almost always off its highs. We are seeing this now; the ASX200 has moved by 1% or more in 15 of the past 60 days, and the local market is 3% off its highs. If we continue to see more frequent large daily moves, we expect that this will coincide with the marketing drifting lower overall.

That said, the Australian equity market is well placed with its commodities exposures, financials and lower (against the US) exposure to stretched growth valuations. A focus on better valuation stocks in favoured sectors, which have a strong market position and solid profit margins, are likely to weather volatility well. This is also aligned with companies that have strong cash flow to support dividend payments, and in 2022, a focus on this type of yield stock has outperformed.

Successful equity investing has much to do with buying well. Investors should be increasing their focus on the market over the rest of 2022 and avoid being turned away by the volatility. History has shown over and over that share prices are far more volatile than the underlying profits and dividend payments of companies. The normalising of interest rates across the globe is an event that also raises uncertainty which will play out as higher share price volatility and, most likely, lower prices overall. This will lead to good investment opportunities today and as monetary and fiscal settings are reset over the next year.

Max Cappetta is a Portfolio Manager and CEO at [Redpoint Investment Management](). Redpoint is a specialist investment manager partner of GSFM Funds Management, a sponsor of Firstlinks. The information in this article is provided for informational purposes only. Any opinions expressed in this material reflect, as at the date of publication, the views of Tribeca and Redpoint and should not be relied upon as the basis of your investment decisions.

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Australia, the Lucky Country again?

Randal Jenneke

We may have been extremely unlucky with the unforgiving weather plaguing the East Coast of Australia this year. However, on the economic front we are by many measures in a strong position relative to the rest of the world. This was partly reflected by the ASX 200 claiming pole position versus most major markets in March.

Past performance is not a reliable indicator of future performance.
Source: Factset.

There is a tall wall of worry that has stood forebodingly in front of investors of late. Yet, many of these issues such as the war in Ukraine, monetary tightening, inflation, (or its more feared cousin, stagflation) vary in their degree of severity across regions.

For example, Europe's growth and company earnings outlook has been severely marred by the ongoing war in Ukraine that has led to punitive sanctions on Russia. Across the Atlantic, US inflation is at its highest since Olivia Newton-John's "Physical" topped the charts (December 1981), forcing the Fed to move aggressively, while recession risks continue to rise - the latest warning indicator was the US 2 and 10 year spread flipping negative earlier this month (Chart 2).

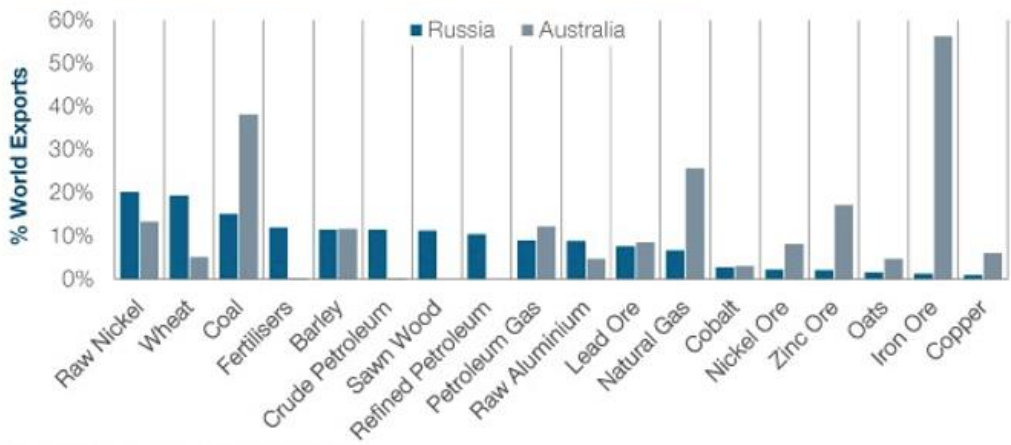
Chart 2: US 10 year – 2 year spread vs US recessions

Source: Factset, FRED. As of 19 April 2022.

Growth for the US and major European economies have been downgraded in the wake of those developments. Conversely, the economic outlook for Australia is relatively positive. We are far enough removed from the conflict in Europe to avoid direct impacts and stand to benefit from Russian sanctions. Our main geopolitical risks are closer to home as highlighted by the recent developments in the Solomon Islands. Similarly, the inflation picture had been much less heated than offshore (particularly the US). However, this week's CPI figures suggest this may be more of a timing issue. Higher domestic inflation can be expected to translate into faster action from the RBA to raise interest rates to slow the economy. We believe the strong commodity price environment, high level of domestic savings and tight labour market will help provide support to the economy, but inevitably an economic slowdown is required to get inflation back under control. The risk is that we get tipped into recession in the process.

The recent surge in prices across the commodity complex, from agriculture to metals, provides a large uplift to our terms of trade. There has been a sizeable gap in some commodity trade created by sanctions on Russian exports.

Chart 3: Russia's largest commodity exports vs Australia



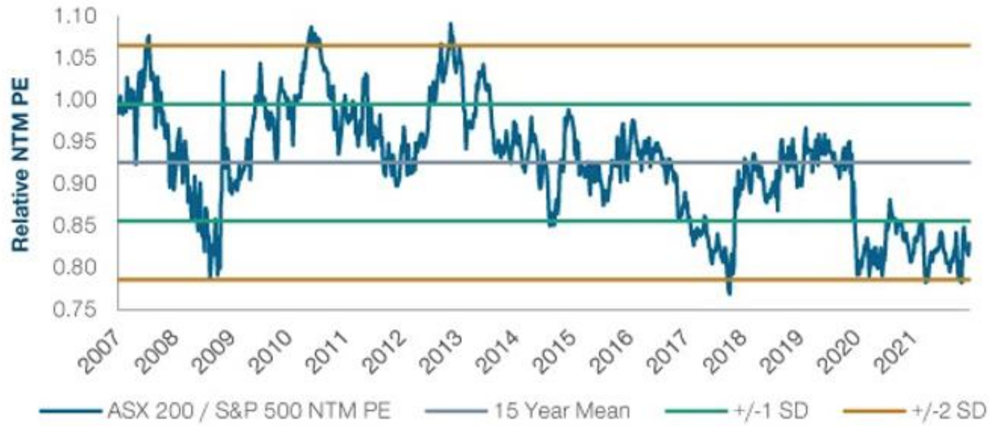
Source: OEC. 1yr as of 31 December 2021.

Australia can help to plug that gap as a top exporter of many of the same commodities (Chart 3). Moreover, our largest trading partner China, is moving in the opposite direction to most by embarking on monetary easing and fresh fiscal stimulus.

Hence, it is not surprising that the miners and energy players have been among the top performers locally this year. At the same time, not all of these commodities enjoy the same outlook. Oil and gas names have benefited from the spike in energy prices. However, longer-term the terminal risks for the sector have increased. The importance of energy security is front-and-center and as such the need to shift to renewables has accelerated. This has reinforced our long-term preference for those commodities leveraged to electrification - nickel, zinc, copper and lithium for example.

More broadly, the Australian equity market's earnings outlook has improved relative to peers, who are in contrast facing earnings downgrades. Further despite the price correction offshore, valuations are also more attractive than markets like the US with a larger than average P/E discount that has persisted throughout the pandemic (Chart 4). These factors combined with the relatively stronger economic outlook have driven an increased allocation to Australia from Global asset allocators, who are for the first time in many years increasing their weighting to the Australian Equity market.

Chart 4: ASX 200 vs S&P 500 valuation



Source: Factset. As of 15 April 2022.

Overall, the global investment landscape is certainly not rosy. We have written many times that we have passed the peak of global economic momentum. Australia is also poised to decelerate. However, we are in a relatively stronger position to endure some of the global storm fronts. If only we could be as fortunate with our own weather fronts.

Randal Jenneke is Head of Australian Equities and Portfolio Manager at [T. Rowe Price](). This article is general information and does not consider the circumstances of any investor.

LIC discounts widening with the market sell-off

Hayden Nicholson

Within the Listed Investment Company (LIC) and Listed Investment trust (LIT) sectors, premiums and discounts to Net Tangible Asset (NTA) values are reactive to market conditions, with negative sentiment usually exacerbating on the downside.

The MSCI All Country World and Growth indices are down 17% and 25% respectively YTD, creating opportunities in high quality managers trading at attractive prices in what appears to be a de-risking event.

Discounts can vary significantly

In general, average sector discounts tend to be the widest during May before reverting to narrower levels over the second half of the calendar year. July is on average the best performing month for LIC/LITs when coupling the uplift to share price and asset backing.

Figure 1: July on average is a standout month for LICs & LITs

Share Price	Average Return	Asset Backing	Average Return
Jan	-0.24%	Jan	-0.65%
Feb	-0.41%	Feb	0.66%
Mar	-0.71%	Mar	0.04%
Apr	2.04%	Apr	1.97%
May	0.33%	May	0.44%
Jun	-0.69%	Jun	-0.59%
Jul	3.61%	Jul	1.84%
Aug	1.01%	Aug	1.31%
Sep	0.29%	Sep	0.50%
Oct	1.51%	Oct	0.46%
Nov	-0.50%	Nov	0.00%
Dec	1.39%	Dec	0.91%
Year	**7.81%**	Year	**7.07%**

Source: company reports, IRESS, Bell Potter. From March 2007 to March 2022.

Some well known managers are now trading at wide discounts to NTA, beyond their long term 'normal' levels. Investor support has waned as markets have fallen and their share prices have dropped more than the value of the underlying assets.

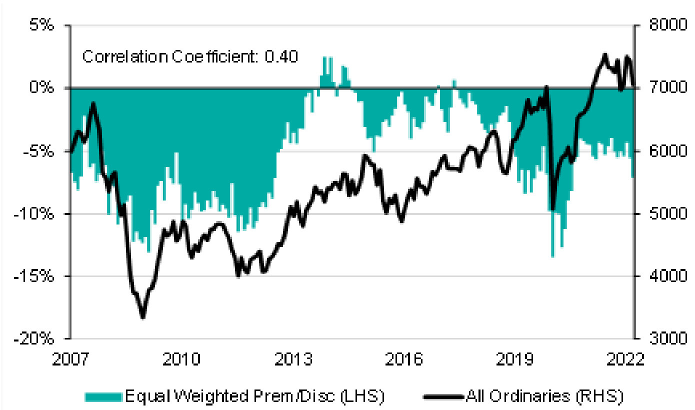
Figure 2: Widest indicative discounts

Code	Company/Trust Name	Premium/Discount	Uplift on 1Yr Normalisation
BTI	Bailador Technology Investments	-34.4%	19.6%
TOP	Thorney Opportunities	-32.7%	9.3%
TEK	Thorney Technologies	-30.7%	13.0%
NSC	Naos Small Cap Opportunities	-26.6%	10.0%
CIN	Carlton Investments	-23.5%	1.9%
VG1	VGI Partners Global Investments	-18.6%	6.0%
HM1	Hearts and Minds Investments	-17.9%	18.9%
VG8	VGI Partners Asian Investments	-17.7%	1.9%
NCC	Naos Emerging Opportunities	-17.2%	5.0%
NBI	NB Global Corporate Income Trust	-16.6%	9.1%
D2O	Duxton Water	-15.6%	-1.0%
WMA	WAM Alternative Assets	-11.9%	-1.0%

Source: company reports, IRESS, Bell Potter.

As shown in Figure 3 below, the equal-weighted sector discount now stands at 6.8% based on our indicative figures. Purchasing at these levels has the potential to add further accretion when accounting for the normalisation effect after market dislocations.

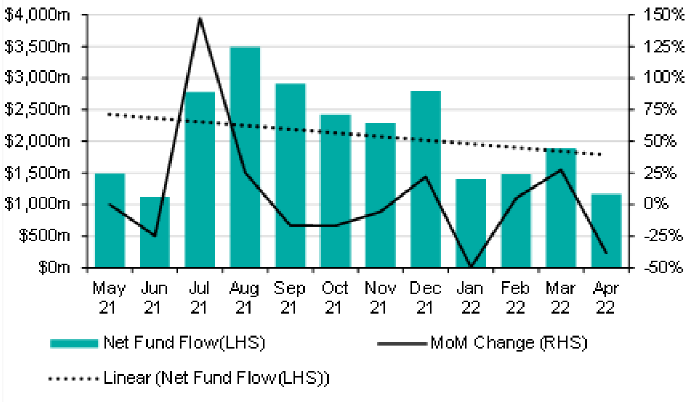
Figure 3: Discounts are reactive to the market



Source: company reports, IRESS, Bell Potter. As at 13 May 2022.

Add to this the fact that net inflows into Australian open-ended funds (ETFs) are decreasing, where retail investors tend to mistime the market. Discounts on alternative asset exposures with the potential to weather a stagflation situation are still yet to tighten.

Figure 4: Net flows into Australian open-ended funds are trending down



Source: ASX, Cboe (Chi-X), Bell Potter.

A note on indicative NTA calculations. They work best with LICs that have a high percentage of investments concentrated in its Top 20, regular disclosure of the Top 20 holdings, lower turnover of investments, regular disclosure of its cash position and the absence of a performance fee.

For more detailed tables on a wide range of LICs and LITs, including current discounts and premiums compared with longer-term averages, see the latest reports in the Firstlinks Education Centre.

Hayden Nicholson is an ETF/LIC Specialist at Bell Potter Securities. This article and attached documents have been prepared without consideration of any specific investment objectives and is general information only based on prices at time of writing.