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Editorial

When fund managers report investment returns, they all make a simple assumption. They calculate what is called 'time-weighted returns', comparing the value of an investment at the beginning of the reporting period with the value at the end. It assumes no additions or withdrawals over the term, and therefore ignores the actual experience of many investors.

Unfortunately, such reporting fails to send an important message. When the alternative of 'dollar-weighted returns' are calculated, based on when people actually invest or withdraw, numerous studies show the investor experience is far worse. The best-known study is **DALBAR**'s QAIB report (Quantitative Analysis of Investor Behavior) and in its latest 2022 report for the 30 years since 1/1/1992, it shows annualised returns in the US of:

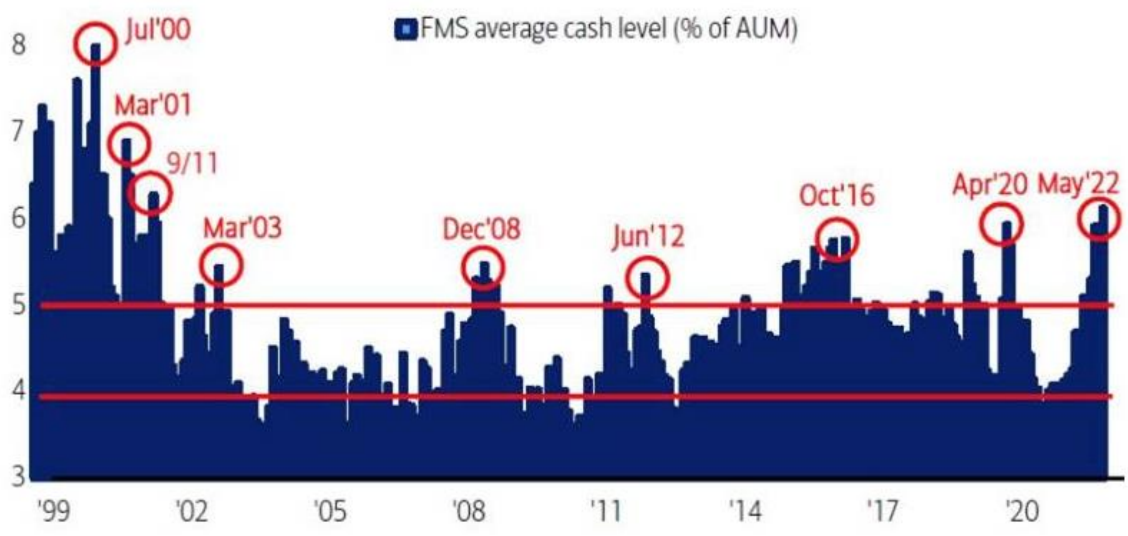
- Average equity fund investors, 7.13%
- S&P500 index, 10.65%

Morningstar research for the last 10 years suggests investors earned about 1.7% less per year compared with reported total returns on their funds, again due to timing of buys and sells. Many years ago in a public presentation, **Platinum's Kerr Neilson** said a study of his clients found entry and exit timing was costing 6% a year. A report on **Cathie Wood's** famous ARKK Fund in 2021 (which has tanked in the last 12 months, down 61%) showed her clients had done worse than the fund's returns by 8%.

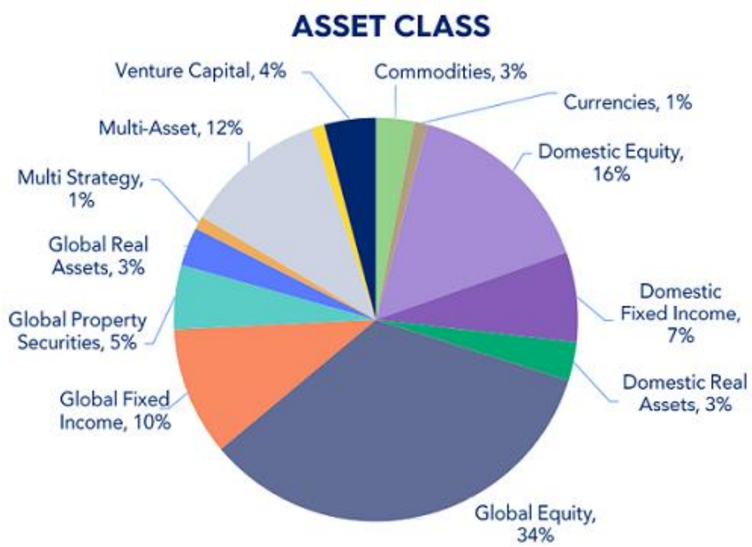
Whichever number is correct, it's a sobering reminder for those looking to time the current threatening market conditions. Investment results depend on behaviour as well as fund selection and performance.

I was reminded of this in a recent chat with a friend who buys and holds stocks and funds for decades without regularly checking prices. Some of his investments have reached the stage where the annual dividends are more than his entry price. Many of us (including me) try to time the market and falling markets are a behaviour test. Two people may have started 2022 with identical portfolios, but what they do in the current market conditions will determine not only their returns over this year but many years to come. My guess is the sellers will do better in the next 12 months but worse over the medium to long term.

And the market is completely dispassionate. It does not know who you are or care about you. If you have taken too much risk to meet your long-term plan, potentially jeopardising your retirement, the market has no emotion. Ultimately, it's down to you and with the best will in the world, nobody knows what the future will bring, although fund managers will try, as shown by their high holdings of cash at the moment (Source, **Bank of America** Fund Manager Survey (FMS)).



Source: BofA Global Fund Manager Survey



Whatever markets are doing, new products will be launched. This week, **Equity Trustees** reported on the most recent 100 funds it has been involved in across the industry. It includes many structures (managed funds, ETFs, LICs, etc), managers from all over the world, and multiple asset classes. Here are the asset classes fund managers have been focussing on.

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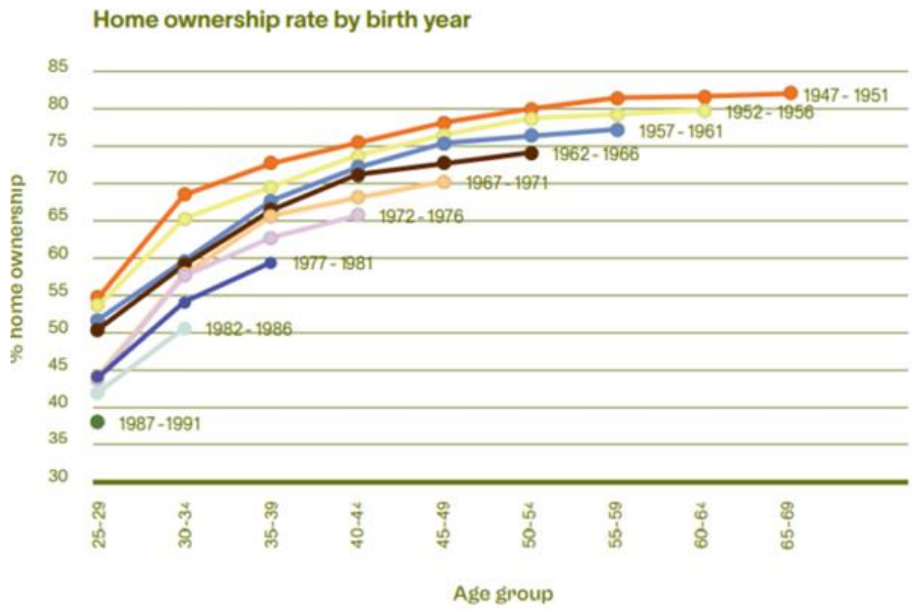
The election results were fascinating with the Australian people voting for action on gender issues, integrity and climate change. Labor comes to power at a difficult time where it needs to balance spending with austerity. Cheap money, world peace and low inflation are ending. But we take a more positive look at the excellence of our election process. We can rightly criticise our politicians and our media, but there's something special about the [way Australians vote]() and even the unique democracy sausage, regardless of your political affiliations.

In the wake of the election, and a political environment showing early signs of a less combative and divisive change, two articles this week focus on inter-generational fairness. Australia has many age-related policies to reconsider, none more important than home ownership. At almost any age, your birth year influences how likely you are to own a home.



Source: (Australian Institute of Health and Welfare 2020)

Generational conflict played out throughout the election campaign, topped by the 'super for houses'

Coalition policy which is now back on the shelf. **Peter Abelson** says a study of the data across nine dimensions of well-being used by the OECD show which generations - Baby Boomers, Gen-X, Millennials - have done best. It's not all bad news for younger folk.

Then **Terry Rawnsley and Asaf Cohen** show the results of a **KPMG** survey called '*When Will I Retire*?', checking the impact of an ageing population across many factors.

Regardless of the dubious merit of the 10,000 cryptocurrencies on issue, they continue to grab headlines. Just this week, the President of the European Central Bank (ECB), **Christine Lagarde**, said of crypto in an interview on Dutch television:

"My very humble assessment is that it is worth nothing. It's based on nothing, there is no underlying assets to act as an anchor of safety ... I've said all along that crypto-assets are highly speculative, very risky assets. If you want to invest there, it's your choice. But what I'm really concerned about when it comes to crypto-assets is that those investments be made by people who have their eyes wide open about the fact that they can lose it all."

Paul Mazzola and Mitchell Goroch delve inside the arcane world of crypto and stable coins to see if there is any value in these so-called investments which thousands of people have created and sold to an adoring audience.

Two articles from senior fund managers on their views on current market conditions. **Tom Stevenson** ponders whether 'This Time Is Different' by looking at a **Goldman Sachs** report on four major market changes, while **Robert M Almeida** says we should have a new appreciation for cash after spending a couple of years chasing the elusive bird in the bush. The bird is better in the hand.

Then **John West** reviews **Catherine Belton**'s book on **Vladmir Putin** by examining how his rise to power and desire to stay top dog guided his awful decision to invade Ukraine. Coming back to our first article on democracy, it's far from perfect but many autocracies make life miserable for their people and neighbours.

This week's White Paper from **Perpetual Private** looks at what value opportunities are emerging as market volatility increases.

In praise of our unique democracy and its sausage

Graham Hand

At 6pm on Saturday, the polling booths for the Federal Election closed and vote counting started. By 11pm on the east coast, we knew who would be Australia's 31st Prime Minister. By early Monday morning, he was sworn into the top job and by midday, with the new Foreign Minister, he was on his way to Tokyo to attend the Quadrilateral Security Dialogue with the most powerful heads of the United States, India and Japan.

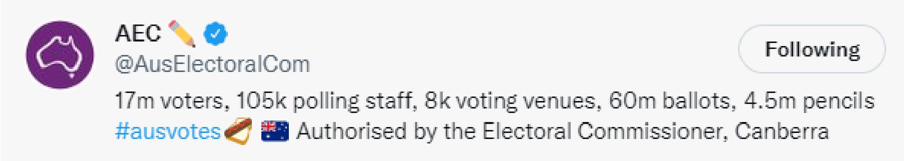
All in less than two days. Anthony Albanese even had time on Sunday morning to sit with family and supporters at Marrickville Library. He held his dog and smiled for selfies as cars tooted and passers-by shouted "We love you Albo."

You gotta love our process

In the US, the election takes place in early November and inauguration is delayed until 20 January.

Regardless of how anyone feels about the result in the 2022 election, and the subsequent recriminations within the Liberal Party, sit back and consider how Australia is blessed by the best electoral process:

- We have the right to decide who leads us, a privilege denied to most people in the world.
- We completely trust the independence and integrity of the Australian Electoral Commission, the agency responsible for organising the election.
- We are 100% sure that our vote was counted, and one person, one vote.
- The only threat at the voting booths was enthusiastic and well-meaning volunteers in colourful t-shirts thrusting how-to-vote cards into our hands. Or choking on a sausage.
- Compulsory voting ensures maximum participation and forces many people to think about the decision who would otherwise be totally disengaged.


AEC
@AusElectoralCom
Following
17m voters, 105k polling staff, 8k voting venues, 60m ballots, 4.5m pencils #ausvotes 🌭 🇦🇺 Authorised by the Electoral Commissioner, Canberra

As the former Prime Minister, Scott Morrison, said in his concession speech on Saturday night:

"In this country, at a time like this, when we look around the world, and particularly when we see those in the Ukraine fighting for their very freedom and liberty, I think on a night like tonight we can reflect on the greatness of our democracy."

No questioning the result. No incitement to storm the capital. No protests on the street. Just some mad commentary on Sky After Dark which few people watch.

Update after voting at Blacktown West Public School (democracysausage.org/federal_electi...)

Nothing on offer this year. I had to go to Bunnings after I voted.

democracysausage.org
Democracy Sausage
A real-time crowd-sourced map of sausage and cake availability at Australian elections. It's practically part of the Australian Constitution...

At the polling booths, there's almost an obligation, certainly among politicians casting their own vote, to eat a democracy sausage. It's a fine and unique Australian tradition, notwithstanding that it is usually a money-raising exercise for an underfunded public school. It's an amusing nod to an equal and classless society and an acknowledgement of our fine democracy. Social media posts fill with photographs and reports on the best sausages, and the country joins in a national institution as a juxtaposition to the far-reaching and earnest act of voting.

There's no place like home

After his acceptance speech around midnight on Saturday, Anthony Albanese was driven to his home, also in Marrickville. He bought the 1920s house in 2006 for $997,000, with three bedrooms, two bathrooms, a pool and sitting on 519 square metres. It's not in Vaucluse or Toorak or Peppermint Grove, or overlooking the ocean or the harbour. It's in the same street he moved to when he left his mother's council house in 1990, paying $146,000 for his first home.

It's relatively easy to find where the new Prime Minister lives among neighbours he has known for 30 years. Although Federal Police are now stationed nearby, it looks like any other couple and their dog when they leave the house, although Kirribilli beckons (and he needs a decent front fence). *(Photo source: The Sydney Morning Herald)*

Prime Minister-elect Anthony Albanese, partner Jodie Haydon and dog Toto walking out of their Marrickville house. EDWINA PICKLES

We have heard about Albanese's humble, poor upbringing with a single mother on a disability pension. While a country such as the US boasts of its 'Anyone can be President' image, Albanese is an example of how it can really happen in Australia.

The rise of community-based independents

A highlight of the 2022 campaign was the rise of independents, gaining an incredible 12 seats in the Lower House. It's not only the 'teal' candidates who arose from local dissatisfaction with the major parties, especially the Liberal Party and its dysfunctional policies on climate, integrity and gender issues. It included Dai Le, Fairfield's Deputy Mayor, and former Wallaby, David Pocock, who looks like gaining a Senate seat in the ACT.

Cathy McGowan defeated Liberal Sophie Mirabella in 2013 based on local issues, long before the label 'teal' was invented. McGowan now gives lectures to independent candidates on how to manage their campaigns. Andrew Wilkie in Hobart controls 70% of the two-party vote, Rebekha Sharkie in Adelaide Hills has 63% and both Helen Haines and Zali Steggal increased their margins.

The teals and others are no grab-bag of amateurs. Their campaigns were sophisticated and well-funded and they help each other while firmly representing their own constituents. Although Climate 200 provided an average of around 30% of teal funding, all winning candidates demonstrated significant community support and attracted volunteers by the thousand. In total, Climate 200 raised about $12 million from 11,000 donors. Treasurer Josh Frydenberg's successful opponent, Monique Ryan, ran with the Zen Buddhism phrase, 'Chop Wood Carry Water', signifying there's always another vote to win.

The major parties hate it but it is democracy at work. Most of the volunteers had never participated in a political event before, yet they spent their evenings and weekends door knocking, armed with talking points that supported the policies of this new wave of politicians. As Zali Steggal showed, once an independent is in power, they can be difficult to dislodge if they stay close to their community. Money struggles to match this level of grass roots enthusiasm, as Clive Palmer and his $100 million found.

In my own seat of North Sydney, the swing away from the sitting Liberal, Trent Zimmerman, himself a moderate, was about 14%. Here are the Tink volunteers waiting for the results at the Kirribilli Club after spending the day on the booths.

Let's not take democracy for granted

In his final letter to shareholders in 2021 before stepping down, Jeff Bezos, the CEO of Amazon wrote:

"Democracies are not normal. Tyranny is the historical norm. If we stopped doing all of the continuous hard work that is needed to maintain our distinctiveness in that regard, we would quickly come into equilibrium with tyranny."

I have previously mentioned the Museum of Australian Democracy (MoAD) in Old Parliament House which is now open again following the fire at the front doors. It's an important reminder of how we need to work to retain the values and features of our democracy.

MoAD includes a terrific exhibition called *Truth, Power and a Free Press* on the role of the media in exposing corporate crime and government scandals. The exhibition includes this explanation, which large sections of our mainstream media overlooked in the election campaign in favour of trivial, gotcha moments:

"News needs to be trustworthy. Facts need to be reported as accurately as possible ... sometimes it means confronting those who wish to prevent the publication of facts that are in the public interest. Without a shared basis of fact, trust declines and democratic debate withers."

Daryl Karp, a Director of MoAD wrote about an exhibition called *Democracy DNA*:

"Australia's democracy is a unique amalgam of institutions and practice adapted from the UK, USA and elsewhere. It's something we've built. ***It is not innate, nor simply inherited, nor is it fixed in time.*** *It reflects our pragmatism, our mistrust of authority and our willingness to work together. When completed, Democracy DNA will occupy the core, three central spaces in Old Parliament House, encouraging Australians to value our democracy, to understand how it works, see themselves as part of the story; consider how they engage with it, and what they expect from their representative and government." (my bolding)*

Where will Albanese take us?

In our Reader Survey on the election a few weeks ago, on a scale of 1 to 10 where 1 is terrible, two-thirds of our readers rated the quality of political debate at 3 or less. Readers disliked 'lies and deceit', 'scare tactics about policies of other parties', 'media bias' and 'too much focus on gaffes'. Only 1% of respondents accepted nothing is wrong and 'It's all the 'cut and thrust' of a democracy'.

Voters wanted a move from toxic politics. While promises are easy to make on the election trail, Anthony Albanese spoke about the need to change throughout the campaign including in his victory speech. He wants to "*change the country and change the way politics operates in this country".*

Two surprising statistics about our elections:

- No Prime Minister has won consecutive elections since John Howard in 2004, and
- The last time a major party served only one term in government was in 1929.

For all the strengths of our election process, our politicians have divided more than united for at least two decades. As a result, we have a third force in Australian politics as the model for running an independent campaign is now established.

Time will tell if the country and its politics really changed over the weekend. Regardless of whether Albanese hits a snag, our electoral process and the democracy sausage are welcome again in 2025.

Graham Hand is Editor-at-Large for Firstlinks.

Is the investing landscape really different this time?

Tom Stevenson

Everyone knows that the four most dangerous words in investment are 'This Time It's Different'. Sometimes, it is. More often, things end up much the same. The challenge is knowing which it will be.

My investing lifetime has witnessed some seismic changes and the associated market reactions to them. The dot.com bubble and the financial crisis have been the most striking examples. In both cases, there was no shortage of people claiming to spot the end of one era and the start of something quite different. Very often during the 40 years from the end of the 1970s until Covid, the pre- and post-crisis worlds didn't look so very different.

So, my instinctive response to an investment bank research note arguing that the pandemic has changed everything is scepticism. This reaction is always magnified when the word 'postmodern' is thrown into the headline for effect. For the same reason that you don't ask a barber if you need a haircut, you might beware of asking Goldman Sachs if you should be 'positioning for secular change'.

Highlighting four ways markets have changed

But I'm being a tad unfair. The note does highlight four important ways in which the past two years may have radically altered the landscape for investors. Only time will tell whether this necessitates an overhaul of our portfolios, and it would be great if we could wait and see.

Unfortunately, that isn't how investing works. In the absence of a crystal ball, we have to judge now whether the changes are as drastic as billed - and act accordingly.

No surprise about change **number one** - the re-emergence of inflation after a long hibernation. Arguably, it was tamed by Fed chairman Paul Volcker in the early 1980s and kept in its box for 40 years by a fortuitous sequence of events that included the de-politicisation of monetary policy in the 1990s, the emergence of China as a source of cheap labour from 2001 and finally the deleveraging and demand shock caused by the financial crisis in 2008.

The pandemic brought this happy run to a halt, with households buoyed by stay-at-home savings and wage support schemes in connection with coronavirus lockdowns, and the inflationary impact of gummed up supply chains and the war in Ukraine more than offsetting the initial fall in demand during lockdown. Central banks are now running to catch up with the potential wage-price spiral that threatens to lock in inflationary expectations. We have been here before. In the late 1960s inflation was not a problem until it was suddenly a big one. And investing in an environment of persistent inflation is clearly going to be very different from what served us well during four decades of relentless disinflation.

Change **number two** was in evidence well before Covid, but the virus and the war have accelerated a process that was already underway. About the same time that inflation was being Volckerised by the Fed, governments on both sides of the Atlantic were setting in train another revolution. The era of deregulation and privatisation may look as dated as big hair and shoulder pads, but it took a pandemic and war to confirm the fragility of the globalised economy they enabled. Localisation, resilience, and national champions will be the successors to complex, interconnected systems that require everything to go right without fail and which have let us down when that happen.

The **third change** highlighted by the Goldman Sachs note is related to the first two. Most of the past 40 years have been characterised by cheap and abundant labour and commodities, which removed the need to invest in greater efficiency that was one positive outcome of the shortages and high cost of both of these in the 1970s. The move from global to local will make labour markets ever tighter in future while it will take years to repair the lack of investment in commodity production, even assuming the ESG agenda allows it. For investors that means taking a much closer look at companies' exposure to energy and labour costs, because the winners going forward will be those less affected by these inputs and those helping other companies to mitigate their impacts through technology and other efficiency measures.

Change four, and the one that may turn out to be the most consequential for investors, is the political shift from small to bigger and more interventionist government. We have moved a long way from Ronald Reagan's assertion that government is not the solution but the problem. And from the government surpluses that this hands-off approach enabled.

Here, too, the pandemic has been more influential than the financial crisis, which also initially prompted higher government spending but then replaced it with austerity thanks to a belief that bailing out banks was a form of moral hazard. There has been less squeamishness about pandemic-related spending and the habit may be hard to break in an era of more overt populism.

What about war, decarbonising and energy security?

Social and welfare spending is likely to be just the start of it. The new Cold War ignited by Putin's aggression in Ukraine has encouraged governments to seek to increase defence spending and they have been pushing on an open door. President Biden secured a bigger defence package than he first asked for after both sides of the House thought he hadn't gone far enough. Germany's defence U-turn has been broadly welcomed at home.

And that's before we have even started to talk about the twin imperatives of de-carbonisation and greater energy security. Put this all together with an older fixed asset base than at any time since the 1950s and there may be a capex boom in years to come.

Does this alter everything for investors? Are we really entering a new postmodern era? Should we let our friends at Goldman Sachs reposition our portfolios for secular change? That depends whether you agree that it really is different this time.

Tom Stevenson is an Investment Director at [Fidelity International](), a sponsor of Firstlinks. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity International. This document is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au.

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Comparing generations and the nine dimensions of our well-being

Peter Abelson

Most Australian voters are either Baby Boomers (born 1946 to 1964), Generation Xers (1965 to 1980) or Millennials (1981 to 1996). And at one time or another most have been told that their generation is better off (or worse off) than the ones that came before it.

It's tempting to think the most recent generation is always the worst off, with all the talk about the cost of living and other things in election campaigns.

But without data, or living the lives of other generations, it is hard to be sure.

Boomers are currently aged 58 to 76. They were 25-35 between 1971 and 1996. Gen Xers are currently 42-57 and were 25-35 between 1990 and 2015. Millennials are in their 20s and 30s right now.

For most of the dimensions of well-being in which we are interested, the questions turn out to be surprisingly easy to answer, so long as we remember that the data tells us a lot about lives on average, and little about the lives of individuals.

In a study prepared for the Australian National University's Tax and Transfer Policy Institute I've attempted to provide answers for nine dimensions of well-being, used by the OECD, comparisons, ranging from income to housing, to personal safety to inequality.

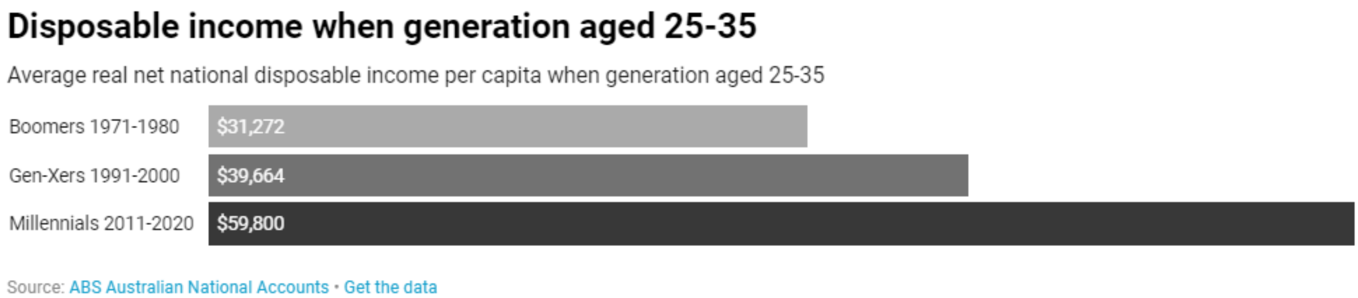
Income and wealth

Net national disposable income per capita has been climbing over time, meaning that Millennials aged 25-35 are 51% better off than Generation Xers were at that age, and 91% better off than Boomers at that age.

And those figures are likely to understate how much better off their standard of living is.

The quality and range of goods and services from food to cars to healthcare to computers to mobile phones with cameras has improved in ways figures can't capture. Many didn't exist in the 1970s.

Although the Bureau of Statistics attempts to adjust its measures for improvements in quality, it concedes its efforts are incomplete. The Bureau's underestimation of quality improvements is likely to be significant.



Millennials are also wealthier than Gen Xers and Boomers were at the same age, although recently the wealth of older Australians has been climbing more rapidly than the wealth of younger Australians, due in large measure to home prices.

Offsetting this, in due course, should be big inheritances passed from Boomers to Gen-Xers and Millennials.

Housing

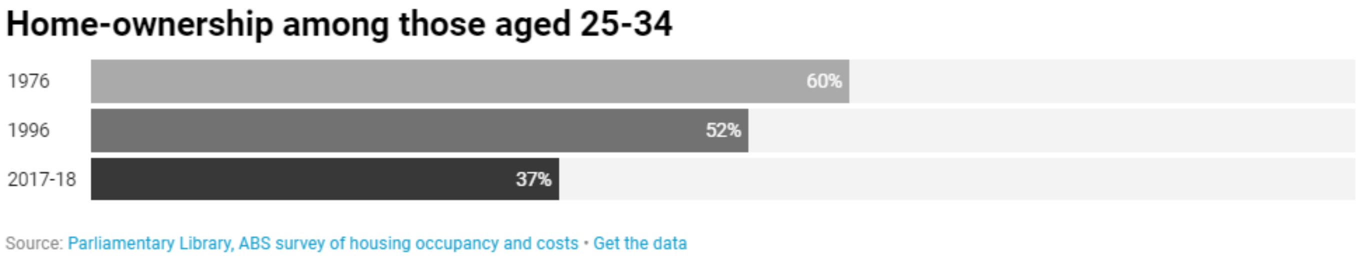
Millennials aged 25 to 34 are much less likely to own their homes than Boomers were at the same age.

Among those aged 25-34, home ownership has fallen from 60% in 1976 to 37% in 2017-18.

While much of this is due to prohibitively high prices, some is due to Millennials finishing education and entering the workforce and marrying later.

It should be noted that Millennials who do own a home are no worse off in terms of payments relative to income than were Boomers. But getting a deposit (unless there's an offer from the bank of mum and dad) has become much more difficult.

Private rents have been remarkably constant over the past 25 years, at about 18% of average household income.



Rents for low earners (in the bottom fifth) remain extraordinarily high, in Sydney taking up about 30% of household income. But this isn't a generational problem. Low earners' rents have been high and stable as a share of income for decades.

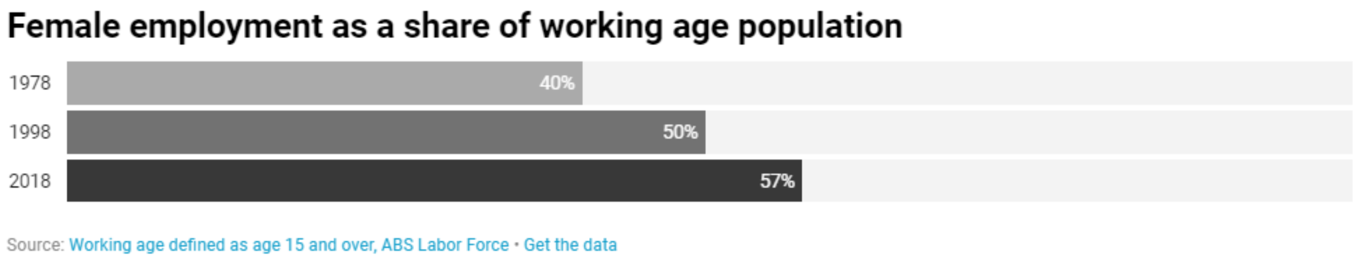
What is a problem for the most disadvantaged is that public housing has slid from 5.8% of the housing stock in the late 1990s to about 3% today.

Work ✅

Women are much more likely to be in paid employment than 40 years ago.

Whereas in 1978, when Boomers were aged 25-35, only 40% of women were in paid work, by 2018 when Millennials were that age, a record 57% were paid workers, a proportion that climbed even higher during COVID to an unprecedented 60%.

Men are less likely to be employed. Whereas in 1978, 75% of men were paid workers, male employment fell to 67% in 1998 when Gen-Xers were 25-35, and stayed there when Millennials were that age in 2018.



And there has been a major shift from blue-collar to white collar work. As detailed in the Intergenerational Report, in 1966, machinery operators and drivers comprised 11% of the workforce, and technicians and tradespeople 21%. By 2016 these proportions had almost halved to 6% and 14%.

The share of the workforce employed in (generally less physically-demanding) professional jobs has doubled, while the share employed in personal service jobs nearly tripled. Arguably these changes mean more pleasant working conditions.

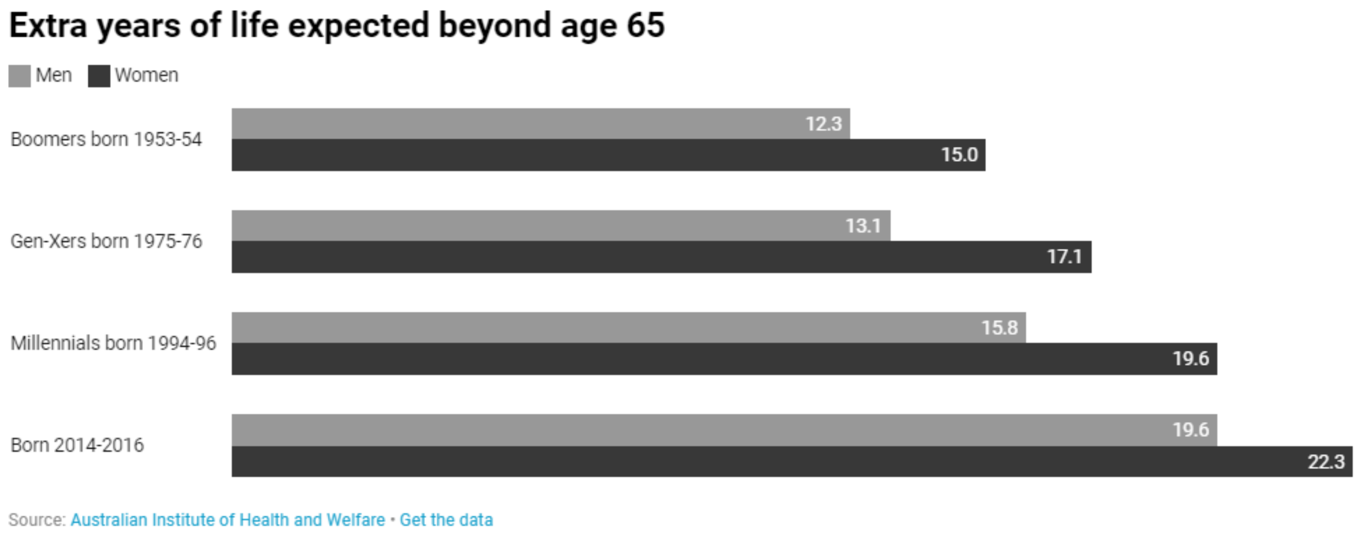
Work is also more part-time - the proportion of the workforce employed part-time has doubled, climbing from 15% in 1978 to 30% – and more casual. In 1988 only 19% of the workforce was employed in jobs without leave entitlements. By 1998 the proportion had climbed to 27%, and has since declined to 22.5%.

Health ✅ ❌

Australians are taller and heavier than half a century ago, in part because of better nutrition, but we are more obese. Between 2007-08 and 2014-15 the proportion of children defined as overweight and obese women has climbed from 24.7% to 26.4%

Despite this, the extra years of life expected by men who reach 65 have climbed dramatically, from 12.3 years for a Boomer born in 1953-54, to 19.6 for a Millennial born in 1994-96, to 22.3 for a man born more recently.

The extra years of life for a woman at age 65 has climbed from 15 to 19.6 to 22.3.



Importantly, the Institute of Health and Welfare finds most of the additional years are healthy years, with the proportion of lives spent in ill health little changed.

Suicide rates have fallen for women (from 7.8 per 100,000 females in the 1970s to 5.7 in the 2010s) but not for men (where they remained at about 18 per 100,000).

On the other hand, both men and women experienced major increases in reported anxiety and mood disorders, with the proportion of women reporting anxiety climbing from 12% to 16% between 1997 and 2017, and the proportion of men climbing from 7% to 11%. But harmful alcohol use and illicit drug use fell.

Education

Millennials are much more educated (in terms of post-school qualifications) than Baby Boomers or Generation X.

Between 1975 and 2016 the proportion of men with a tertiary qualification climbed from less than 4% to 20% and the proportion of women with a tertiary qualification from less than 2% to 24%.

The benefits for those with degrees go beyond the financial. The Household, Income and Labour Dynamics survey finds they extend to well-being, social interactivity and healthy behaviours, such as physical activity and abstaining from drinking and smoking.

Safety

Between 1996 and 2016 victims of homicide and related offences fell 50%, victims of robbery fell 56%, victims of motor vehicle theft fell 65% and victims of other theft fell by 21%.

Reported sexual assaults moved in the opposite direction, climbing from 80 per 100,000 people in 1996 to 95 in 2016.

Driving on roads has become far safer. Between 1976 and 2016 road deaths per 100,000 people fell from 25.5 to 5.3.

Overseas, far more Australians (many of them conscripts) died in the Vietnam war than in Afghanistan, making the toll from overseas conflicts the greatest for Boomers, much less for Millennials and nonexistent for Generation Xers.

Loneliness and connections

The proportion of Australians actively engaged in community organisations fell from 33% in 1967 to 18% in 200, with major declines in church attendance, membership of unions and political parties, and participation in organised sport.

Whereas in the Boomer year of 1984, Australians had an average of nine trusted friends each, by the Gen-X year of 2018 that number had fallen to five.

In 1984, people could drop in on 10 neighbours. By 2018, it was only four. Seven per cent of people who could not drop in on a single neighbour in 1984. By 2018 it had climbed to 17%.

Offsetting this to some extent is evidence of substantial volunteer work in the recent floods and bushfires, social support services that did not exist 20 or 30 years ago, and the increasing use of online communication.

Environment ❌

The US National Aeronautics and Space Administration finds the past seven years have been the hottest in recorded history.

The CSIRO finds that Australia's climate has warmed on average by 1.44°C since national records began in 1910, and the Intergovernmental Panel for Climate Change expects Australia to suffer more from longer and hotter summers and more frequent bush fires than the rest of the world.

More than 1,700 Australian species and ecological communities face extinction.

Only partially offsetting this for Millennials are less air and water pollution than in the 1970s, less water use, and better building standards.

Inequality ❌

While the economy Millennials entered their 20s and 30s is richer than in earlier generations, its wealth and income are less equally distributed.

The Productivity Commission finds income inequality has increased "modestly" since the 1980s and wealth inequality by more.

Between 2003-04 and 2015-16 the wealth of the poorest tenth of households climbed not at all, while the wealth of middle-earners climbed 27%, and the wealth of the top tenth by nearly 40%, largely due to growing superannuation balances and home prices.

Overall outcome depends on what is valued

Assessing the overall position of Millennial voters compared to Gen-X and Baby Boomer voters requires value judgements about the dimensions that matter the most, and also judgements about the future, including the ways in which Australia will buffeted by and respond to potential major threats including climate change, social media and the erosion of privacy, and conventional and cyber warfare.

Peter Abelson wishes to acknowledge the assistance of Aliya Gul, a Millennial. Peter Abelson is an Economist with Crawford School of Public Policy, Australian National University. This article is republished from The Conversation under a Creative Commons license.

When will I retire? Economic impact of an ageing population

Asaf Cohen, Terry Rawnsley

Meeting the changing needs of older people in terms of housing, support services and work arrangements is a significant challenge facing Australia.

Demographers, economists and policy makers are increasingly concerned about the ageing population and the increasing number of people aged over 45 who will start to transition into retirement over the next 20 years. In 2021, 39% of the labour force was aged over 45-years-old, compared to 32% in 2001. Over the next 20 years, an increasing number of people will start to transition into retirement.

Age of retirement

In 2021, men aged 45-years-old were expected to retire at age 65.2 and women were expected to retire almost one year earlier at 64.3. Over the past 30 years the expected retirement age for women has increased by 3.5 years and 1.9 years for men.

Intergenerational reports prepared for the Commonwealth and State Governments highlight the challenges of an ageing population, including significant impacts on the labour force, consumption patterns, public finances and – in turn – economic growth.

Comparing the major Australian cities (based on the greater capital city statistical area), people in the larger cities of Sydney and Melbourne tend retire earlier than their counterparts in Brisbane Perth and Adelaide. This may be driven by the relative cost of living in Sydney and Melbourne, which encourages older people to shift out of the city as they age to a lower-cost regional area.

Important factors increasing the expected age of retirement:

- 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.
- Increased demand for paid paternity leave (for both men and women), access to affordable childcare and early childhood education, and greater 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.

Length of retirement

By combining life expectancy data with the expected age of retirement, an expected 'length of retirement' can be estimated. The length of retirement has implications for individuals as they manage their personal finances, the aged care sector, and for the government in terms of transfer payments and healthcare costs.

Men have seen a significant increase in expected length of retirement – from 9.3 years in 1978 to 17.3 years in 2019. This has been driven by increases in life expectancy, while age of retirement has remained relatively steady between 63 and 65 years old. Women have seen a 3.5-year increase over the same period.

Expected Age of Retirement & Length of Retirement, selected years

Year	Woman			Men		
	Expected age of retirement	Life expectancy at age 45	Expected length of retirement	Expected age of retirement	Life expectancy at age 45	Expected length of retirement
1978	60.9	79.0	18.1	64.0	73.3	9.3
1987	60.4	81.1	20.7	63.1	75.8	12.7
1997	61.1	82.7	21.6	63.1	78.1	15.0
2009	63.4	85.1	21.7	64.0	81.3	17.3
2019	64.4	86.1	21.6	65.2	82.5	17.3

Source: Australian Bureau of Statistics – Life tables, and KPMG Australia

Key considerations highlighted in new report

Based on analysis of an age of retirement dataset prepared by KPMG Australia, the '*When will I retire*' paper considers:

- Implications of the length of retirement for both individuals' personal finances and for government spending.
- How 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.
- The opportunity for both workers and businesses to come together to retain skilled workers and provide older people with income, social interaction and intellectual stimulation.
- The move by older people away from the major cities into regional areas and the challenges and opportunities this presents.
- The need to continue to maintain momentum on gender equity and what actions can be taken to address this.

Download report

Our latest thought leadership paper *When will I retire?* explores the implications and opportunities of the changing retirement landscape.

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The real story behind the crypto crash

Mitchell Goroch, Paul Mazzola

On the weekend of the 7th/8th May 2022, the sky fell on the crypto market. A stablecoin called Terra started a freefall which precipitated a crash on the whole crypto market. Prior to the fall, Terra ranked in the top 10 crypto coins, with a market value of over US$18.7 billion and is now virtually worthless. The most popular cryptocurrency, Bitcoin, has dropped by a massive 62% from its all-time high recorded in November 2021. These falls are not unprecedented in the volatile crypto market, however, this crash is different from others and reveals a vulnerability in the ecosystem which serves as a warning to regulators.

Price chart of Terra (UST)

Source: Coinmarketcap

Price chart of Bitcoin

Source: Coinmarketcap

How does Terra work?

Terra, otherwise known as UST, is referred to as a stablecoin similar to Tether which is the best known of all stablecoins. This subset of the crypto market is designed to be virtually immune from volatility as it is backed by collateral of real value. For example, Tether is backed by US dollar denominated assets such as US government bonds and other 'safe' financial instruments.

Terra, one of the newer breeds of stablecoins, differs as its value is determined by a complex algorithm which depends on a sister coin called Luna. 'Terra' and 'Luna' take their names from the Latin words for earth and moon, with the relationship between the Terra blockchain and the Luna token supposedly representing the gravitational force between the two.

The value of Terra is meant to be pegged to the US dollar, however through either excess supply or demand, could theoretically trade slightly above or below the US dollar peg temporarily until it is re-balanced. It never traded outside a range of US$0.85 to US$1.05 prior to its collapse. The value of Terra is automatically rebalanced through the operation of its protocol by either the burning (decrease in supply) or minting (increase in supply) of its collateral coin, Luna. Envision the entire Terra 'economy' to consist of a Terra pool and a Luna pool, which attempt to maintain parity through a process of arbitrage.

So how did the crash happen?

Do Kwon is the South Korean developer and co-founder of Singapore based Terra (Terraform Labs) and network token Luna. His rise and fall within the crypto community was rather rapid even in fast developing industry. Terra and Luna peaked during a time when the entire cryptocurrency market was in decline. Their popularity was primarily due to a lending platform called Anchor.

Anchor promised Terra users a high annual percentage yield (APY) of 19.5% by investing the coin on their protocol. Think of the Anchor Protocol as a bank. An investor, (Bill) deposits $20,000 worth of Terra on the Anchor protocol. Anchor lends out the deposit to a borrower (John) who pays interest to Anchor. John needs to put down some of his own crypto collateral as security which also generates a yield. The yield from John's collateral as well as the interest he pays Anchor, goes to pay the 19.5% interest to Bill. Crucially, the deposits and interest are denominated in Terra.

About 75% of Terra's circulating supply was deposited in this way. As Anchor's revenue began to dwindle, it decided to convert its interest rate from a fixed rate to a variable and reduce it from 19.5% to 4% p.a. Consequently, dismayed at the significant reduction in their return, investors started withdrawing their Terra coins at an accelerating rate. This sparked a spiraling sell down of Terra and Luna as the market lost confidence in the algorithm as it struggled to cope with the overwhelming market forces. This was like a run on a bank.

The market was spooked further by a massive sell down of Bitcoin by an investor known as the Luna Foundation Guard, an organisation set up Do Kwon. According to Coindesk, it is the second largest known holder of Bitcoin. The Foundation was established to support the stability of the Terra stablecoin. It did this by holding in reserve over US$3.1 billion worth of Bitcoin and other crypto assets to instill market confidence in Terra in the event that any major market anomaly caused a major price shift. However, this backstop ultimately backfired. The Foundation started selling Bitcoin to buy Terra in an attempt to support its price during its collapse. This caused a devaluation of Bitcoin and triggered a domino effect on the entire crypto market.

Confidence is everything

Confidence in the ecosystem in which crypto coins trade is essential. This is the same as the need for public confidence in any fiat currency to ensure its relative stability. According to Coindesk, there have been other bank runs on algorithmic stablecoins. In 2020, Do Kwon had co-led Basis Cash, another failed algorithmic stablecoin project that crashed due to regulatory concerns. Kwon had ignored repeated warnings by other market experts against the dangers of an algorithmic stablecoin design. In 2021 Senior Economist Francis Coppola warned that:

"self-correction mechanisms that rely on financial incentives do not work when panicking humans are stampeding for the exit".

Algorithmic stablecoins are not foolproof as their rebalancing mechanism relies on variables that can't be controlled such as investor demand, arbitrage traders who trade rationally, and reliable price information. In Terra's case it seems likely that an unusually large withdrawal knocked the entire system out of balance.

Despite Terra's failure, Do Kwon is adamant the Terra blockchain and Luna coin can be revived through an on-chain governance proposal to hard fork the existing network. At the time of this writing, 92% of the Terra community have voted against the proposed changes by Kwon. Market experts believe a lack of trust in Terra and Kwon could be the reason.

Founder of Defi security firm HashEx and market commentator Dimitry Mishunin summed up the negative sentiment by claiming:

"The primary challenge the Terra community has against a new fork as proposed by Do Kwon is trust. Should the team choose to proceed with the new fork, there will be a need to increase trust."

Regulators cannot stand and watch

These crypto market failures reinforce the need for a comprehensive regulatory framework. This latest washout is leaving mums and dads holding the can. Many were enticed by the promise of the stability and security that stablecoins offered. Close scrutiny is needed of any product claiming to be 'safe'. At the moment there is little to no protection for these investors, as there is no regulatory framework in place for the creation of stablecoins, how they should be defined and the mechanisms under which they should operate. Without a clear set of rules, unscrupulous and unscrutinised cowboys will continue to design flawed crypto products at the expense of a naïve public.

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This article is general information and does not consider the circumstances of any person.

Cash is the nightingale, the bird in the hand

Robert M. Almeida

Risk assets are off to a historically poor start in 2022, a year in which seemingly diversified portfolios have been generating undiversified returns. Stocks and government bonds are down by double digits, with equities posting their worst performance in decades while investment-grade corporate bonds have had their worst year-to-date performance ever. There have been few places for investors to hide.

Unlike in recent years, the quality of the individual securities investors own will likely matter more to overall portfolio return than which broad asset classes they are allocating to. Another change is that with higher rates, cash is becoming a viable alternative to risky assets, leading to higher asset-class correlations.

In November, I wrote about the risks of positive stock-bond correlation in a rising interest rate environment. Now I want to address the topic again from a different angle.

The Hawk and the Nightingale

In a Greek fable dating to around 500 B.C., a hungry hawk captures its prey, a nightingale. In desperation, the nightingale tries to convince the hawk that there are more appetizing birds in the bush behind it. The nightingale's effort proves unsuccessful as the hawk replies that a meal already caught, even if small, is better than a larger meal yet to be obtained.

Over the centuries, the story got boiled down to the maxim "a bird in the hand is worth two in the bush." Or, what you have is of greater value than what you hope to have (because you already have it). It's an apt metaphor for valuing risky financial assets in a turbulent 2022 and beyond.

Applying the fable

The nightingale stands for the yield on cash, such as in savings accounts and money market funds. During the worst of the COVID-19 crisis, as interest rates went to zero (and in many cases below) in both nominal and real terms, the value of the bird in the hand (cash) evaporated.

The hawk represents investors. As the yield on safe assets disappeared, the only selling point of riskless assets was that they were a store of value that would return your principal at a future date. That's not a very compelling proposition.

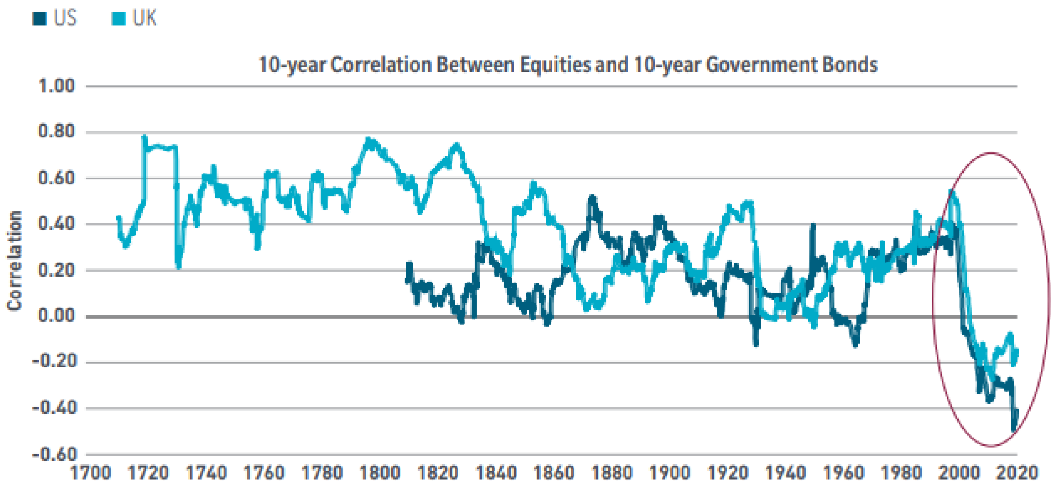
The two birds in the bush are proxies for risk assets, everything from corporate bonds to private and public equities to real estate to cryptocurrencies and the like. As investors were forced to hunt in the bush for their metaphorical dinner, demand overwhelmed supply. For example, in 2021 net flows into global equities exceeded the combined flows of the prior 20 years.

A 2022 reversal

In late 2021, as investors realised inflation wasn't transitory and had risen much more than expected, the riskiest segments of the equity market such as initial public offerings, special purpose acquisition companies and small caps began to underperform. With the anticipated yield on cash continuing to rise as the new year began, its effects became more far reaching as a supply of new, competing investments had to be digested.

The bird in the hand offered something it hadn't in a long time: yield. That resulted in the correlation between stocks and bonds going straight up as both asset classes underperformed whereas correlations had fallen heavily earlier in 2021, as shown below for the US and UK markets.

Exhibit 1: A two-decade aberration in correlations



Source: Goldman Sachs Global Investment Research, Datastream. Monthly data from 31 July 1711 to 31 August 2021. US data available starting from 31 January 1811.

Consistent with historical patterns, defensive equities outperformed non-commodity cyclicals and growth stocks during this time. Historically, investors have tended to shift from higher-reward but high-degree-of-difficulty assets (eg unprofitable enterprises with hard-to-understand business models) to lower-reward but lower-degree-of-difficulty ones (eg companies with demonstrable, sustainable profits).

Keeping with the fable, the hard-to-catch - but awfully tasty - bird in the bush becomes less attractive. Investors have opted for easier-to-catch birds, which are generally enterprises with greater long-term profit certainty. At MFS, we generally prefer these and call them lower-degree-of-difficulty stocks. Others call them quality, a label we use as well.

Expecting correlation to rise

A sharp rise in interest rates has seen the tide turn and now the bird in the hand has value and will compete for investor capital.

Higher short-term interest rates may bring higher asset class correlations. Not only might stocks and bonds become more correlated, but styles such as growth and value may sync more closely than in the past. If so, the performance gap between asset classes should prove less pronounced than in recent years.

We believe emphasis should be placed on the quality of assets owned within each category rather than on the category itself. Security selection will therefore be paramount. The visibility and surety of the cash flow of the individual growth or value stock or high-grade or high-yield bonds is what will matter, not the broad asset class it's assigned to.

I think company fundamentals, whether we're investing in stocks or bonds, will be the main drivers of investors' returns. Owning quality, cash-flow-generating assets, regardless of style or category, is the portfolio construction roadmap to follow, and this is how our strategies are positioned.

Robert M. Almeida is a Global Investment Strategist and Portfolio Manager at [MFS Investment Management](). This article is for general informational purposes only and should not be considered investment advice or a recommendation to invest in any security or to adopt any investment strategy. Comments, opinions and analysis are rendered as of the date given and may change without notice due to market conditions and other factors. This article is issued in Australia by MFS International Australia Pty Ltd (ABN 68 607 579 537, AFSL 485343), a sponsor of Firstlinks.

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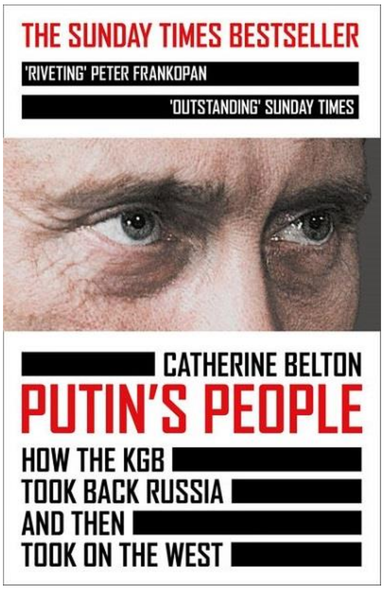
Book review of 'Putin's People' and his motivation for war

John West

The world is in a state of shock and disgust as it seeks to analyse and understand Russia's invasion of Ukraine and the tragic war underway. Catherine Belton's book, Putin's People, provides well-researched and troubling insights into the nature of Russian politics.



How can we understand Russia's invasion of Ukraine? What does it reveal about the regime of President Vladimir Putin and Russia's possible future? To this end, there may be no better aid than Catherine Belton's book, *Putin's People – How the KGB Took Back Russia and Then Took On the West*, published in June 2020.

Belton argues that:

"the kleptocracy of the Putin era was aimed at something more than just filling the pockets of the President's friends … the KGB takeover of the economy – and the country's political and legal system – was a regime in which billions of dollars at Putin's cronies' disposal were to be actively used to undermine and corrupt the institutions and democracies of the West."

Putin's rise to power

The Putin story commences in Dresden, in the former East Germany, where he was working as a KGB agent. But according to Belton, an investigative reporter for *Reuters* and previously Moscow correspondent for the *Financial Times*, Putin was not just a low-level functionary in a Cold War backwater, as widely believed. Rather, he was on the front line in undermining the West, through terrorist networks, smuggling high-tech, and money laundering. And as the KGB could see that the writing was on the wall for communist economic planning, in Dresden they were siphoning off vast sums from the dwindling economy to ensure the survival of their networks at home and abroad.

In 1991, Putin moved back to his hometown of St. Petersburg where he became deputy mayor. The 1990s were the chaotic years of the Yeltsin administration, with the rise of oligarchs who benefited from corrupt privatisations. But former KGB officer ('siloviki') networks did not disappear, they were biding their time in the background. Putin worked with the siloviki and local criminal groups to hand out export licenses, build front companies, and create slush funds in order to funnel 'black money' overseas to trusted custodians, friendly firms, and intermediaries. Belton writes that St. Petersburg's port "*became ground zero for an alliance between the KGB and organised crime.*"

Putin moved to Moscow in 1996, quickly rising through the ranks at the Kremlin. Following Russia's 1998 financial crisis, the siloviki launched an attack against the corruption and scandals of President Boris Yeltsin, his family, advisors, and oligarchs. Fearing a restoration of the Communist Party, Yeltsin turned to the siloviki and

Putin, who was nominated to succeed the ailing Yeltsin as president in 2000 – with the promise that the interests of Yeltsin and his entourage would be protected.

Then followed a progressive and systemic power grab by the siloviki around Putin in the Kremlin. Government officials from the Yeltsin era were gradually jettisoned. Putin cowed the Yeltsin-era oligarchs as he jailed the richest and most powerful one, Mikhail Khodorkovsky, for ten years and then took over his oil company, Yukos. Putin put his loyal allies in charge of most strategic sectors of the economy. And the law enforcement and court system fell under the siloviki.

In short, Putin and his people achieved control of everything in Russia. He made himself and his cronies rich, and created an unaccountable slush fund of dirty money to maintain control at home and undermine and corrupt the West. For the siloviki, the Cold War never ended. But according to Belton, Putin would be essentially a front man in the group of siloviki who came to power 20 years ago. It is a story of Russia's siloviki deep state seizing the Kremlin and running the country like a crime syndicate.

Mistakes on both sides

When Putin came to power, he made overtures to the West and opened Central Asia as a transit corridor for the US at the start of the Afghan war. He was expecting something in return, which he never received. The US continued to treat Russia as an economic basket case. Putin believed that Russia is entitled to be a great power, in light of all the sacrifices of World War II. Belton argues that the West should have been more open to hearing Russia's concerns. In short, there have been mistakes on both sides of the relationship. That said, while Putin and his people may be formidable adversaries of the West, they are also incompetent economic managers who have kept their country an economic basket case, despite its immense potential.

'KGB-capitalism' doesn't work

As brilliant as Putin and his people seemed in seizing power, it has long been a fragile regime. Putin was rattled by the mass street protests in 2011/13 against his regime, as well as Ukraine's 2004 Orange Revolution and the 2014 Euromaidan Revolution, which he saw as being motivated by Western plots to topple his regime. For its part, Putin's Russia showed its complete disregard for international rule of law in 2014 by invading Crimea, a part of Ukraine, in contravention of the 1994 Budapest Memorandum on Security Assurances which Yeltsin had signed.

Further, Russia's middle classes are turning against Putin, according to more recent accounts from Belton. The more liberal, moderate Moscow elite had been co-opted and forced to adapt to Putin's people. Belton argues however that their compliance is waning. Indeed, we have reached a point of inflection due to persistent economic weakness and the Kremlin's seizure of a whole string of businesses and banks in recent years. Many of these Russians do not share Putin's vision of returning Russia to great power status and attacking the West, which he still sees as the main adversary. She also saw growing paranoia of the regime, notably in the poisoning and jailing of Alexei Navalny.

Belton also reserves much criticism for the West, which did not see the asset grab by Putin's cronies for what it is, 'strategic corruption,' which finances a perverse form of foreign policy and political warfare. Putin's people used their wealth as a means to undermine and disrupt the Western institutions and democracies, and buy off its officials, while Western business and financiers collaborated in the process.

Invasion motivated by power ambition

Today, Putin's sole ambition is to hold onto power, according to Belton. In other words, Putin must believe that invading Ukraine improves his grip on power. But he would seem to be failing his sole ambition on all scores. In seeking to explain Putin's actions, Belton recently suggested that Putin has changed during the past two years of the pandemic, as he has become increasingly isolated, consumed by history and his place as the restorer of the Russian lands, and has lost touch with reality. She hopes that this war will lead to his toppling.

At over 600 pages and packed with detailed technicalities and other information, *Putin's People* doesn't make for light reading. But this reader believes that this book offers the best assessment of the state of Russia after its invasion of Ukraine.

This is a review of Catherine Belton, Putin's People – How the KGB Took Back Russia and Then Took On the West (William Collins, 2020). Paperback ISBN: 978-0-00-757881-8.

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