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Editorial

It's often the case that the greatest strength of someone is also their biggest weakness. Many of the world's most popular entertainers - **Elvis Presley, Freddy Mercury, Michael Jackson, Jimi Hendrix, Janis Joplin**, etc - died young as they struggled to cope with the fame and fortune that came from their prodigious talents. The personality attributes that thrived on the adoration of a global stage came with a predisposition to unhealthy behaviour. There's even an academic study called '[Dying to be famous](#)' which concludes:

"Adverse experiences in early life may leave some predisposed to health-damaging behaviours, with fame and extreme wealth providing greater opportunities to engage in risk-taking."

Similar positives and negatives are evident in business and politics. Leaders with the self-confidence and conviction to run their countries are often belligerent, power-hungry and myopic, and there is no shortage of recent examples in Australia, the UK, Russia, the US and Italy. Many senior executives are difficult to work with and reach the top with a hard-nosed attitude to stakeholders (including their own staff) other than shareholders, who love them. Successful sportsmen and women are often so focussed on their craft that they have little time and space for anything else.

There's even a [body of psychological work](#) which suggests that extremes of 'desirable' personality traits might make it difficult to adapt to new or difficult circumstances. Think sports stars in retirement, for example. There is:

"an emerging perspective on why and how extreme standing on 'desirable' trait continua translates into maladaptive behavior and undesirable outcomes at work and in life."

There is evidence of the same extreme attributes in many aspects of financial markets, such as fund managers who fail to adapt to changes in opportunities and expect the old paradigms to continue. They fall in love with stocks and market assumptions and overlook threats, and miss the signs until it is too late. Experts who were media heroes with special insights into the future until their luck changes and their strut turns to shock.

It's the same with the workings of stockmarkets. The best features of an exchange are the ability to buy and sell instantly and cheaply in an open market at public prices. These are also the worst features. Easy liquidity facilitates attempts to time the market, increases turnover, incurs transaction costs and encourages responses to short-term noise.

It would be better for most people to establish a quality equity portfolio and not touch it for 20 or 30 years, until needed to live on. As **Warren Buffett** said:

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

Daily liquidity is a drawback for investors who are unable to control the urge to buy when markets are running high and sell when in the doldrums. There is too much focus on the market's fluctuations and not the company itself, which may continue to run a strong business and pay increasing dividends regardless of its share price.

Home ownership thrives on better behaviour. Most older Australians have built their wealth by buying their own home rather than the perceived riskier method of owning shares. Not only does home equity allow a leveraged exposure to a (usually) rising market, but the owner permits the investment to compound over long periods, often decades. We lived in our previous home for 32 years. The same amount of money placed in equity markets would do at least as well but the price fluctuations are too much to bear.

I think back to an investment property I bought in 1993 for \$300,000. I was tempted to sell a couple of times when the economic outlook was poor and I contacted real estate agents. They were not confident of a decent price during, say, the GFC, and so I hung onto it. If I had been able to reduce my exposure, by selling a bathroom or a bedroom in a liquid market, I would certainly have sold. Hanging onto the place for 30 years now gives me a property worth about \$2 million which I would not have achieved in shares.

In case that sounds like a great return, turning \$300,000 into \$2 million over 30 years requires an annual compounding of only 6.5%, although the property has delivered an additional 3% or so in annual rents after costs. As the article shows in the [Morningstar Asset Class Gameboard](#), the average annual return over the last 20 years in Australian equities is 10.2%.

The chart below shows the price movements in the ASX300 for the last 10 years. Offered this same opportunity for the next 10 years until 2033, investors would take confidence in the safety of shares, notwithstanding the losses such as in 2020 when the pandemic hit. On a long-term chart of say 100 years, such losses are hardly noticeable. Investors would prefer a steady return of say 10% each year, but instead, the market gives them this volatility.



Source: Morningstar Investor

Of course, the future is conjecture, and even for investors confident in long-term equity ownership, [warnings such as this](#) issued during the week by long-time market bear, **Jeremy Grantham of GMO**, weigh heavily on the buy decision (the S&P500 is currently about 4,000):

"My calculations of trendline value of the S&P500, adjusted upwards for trendline growth and for expected inflation, is about 3200 by the end of 2023. I believe it is likely (3 to 1) to reach that trend and spend at least some time below it this year or next. Not the end of the world but compared to the Goldilocks pattern of the last 20 years, pretty brutal. And several other strategists now have similar numbers. To spell it out, 3200 would be a decline of just 16.7% for 2023 and with 4% inflation assumed for the year would total a 20% real decline for 2023 – or 40% real from the beginning of 2022. A modest overrun past 3200 would take this entire decline to, say, 45% to 50%, a little less bad than the usual decline of 50% or more from previous similarly extreme levels. But this is just my guess of the most likely outcome."

Little wonder retirees stay conservative with advice such as this on their minds.

If the stockmarket did close for 10 years, investors might learn the advantages of ignoring market values, by:

1. Buying stocks which are sure to be around in 10 years, which would reduce short-term speculative plays and focus on top quality companies.
2. Increasing the focus on income and dividends as the only place generating money to live on.

- Preventing selling in down markets and encouraging investors to sit on their quality portfolio into the recovery stage.

For anyone who accepts this view but believes it is too late to adopt a multi-decade investment behaviour, here's the oft-quoted Chinese proverb:

"The best time to plant a tree was 20 years ago. The second best time is now."

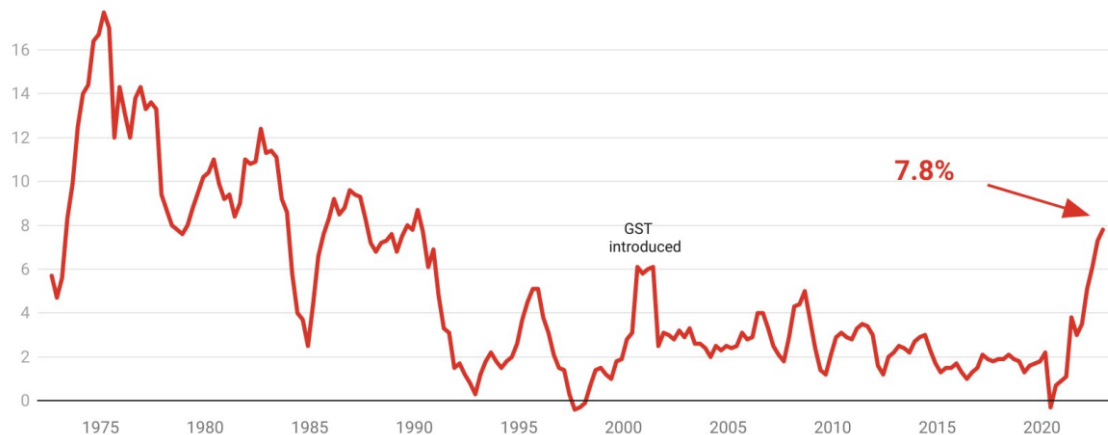
This is good background to **Peter Thornhill's** annual update to support the investment approach he has [used for over 50 years](#), to invest in industrial companies paying consistently-rising dividends. Peter argues for ignoring prices and focussing on income, and he updates his main charts and gives 10 sure-fire predictions for 2023.

Inflation and interest rates

The annual inflation rising to 7.8% to the end of 2022 has removed doubts about the Reserve Bank increasing cash rates again in February. **Michelle Marquardt**, [ABS Head of Prices Statistics](#), said yesterday:

"This is the fourth consecutive quarter to show a rise greater than any seen since the introduction of the Goods and Services Tax (GST) in 2000. The increase for the quarter was slightly higher than the quarterly movements for the September and June quarters last year (both 1.8%)."

Five decades of inflation, to December quarter 2022



Annual increases in the Australian consumer price index.
Chart: ABS • Source: Australian Bureau of Statistics • Created with Datawrapper

Source: Peter Martin

However, on Tuesday, respected RBA watcher, **Gareth Aird of CBA**, was more focussed on a slowdown in the economy in 2023 including a 'per capita recession' (that is, growth relies on an increasing population). He continued this big call:

"Our economic forecasts are conditional on one final 25bp increase in the cash rate in Q1 23 for a peak this cycle of 3.35%. We believe a higher terminal cash rate is inconsistent with a soft landing. We have 50bp of rate cuts in our profile for Q4 23."

On Wednesday, Aird did not see enough in the new data to change his forecast:

"In the December Board Minutes it was stated that, "the Board is prepared to keep the cash rate unchanged for a period while it assesses the state of the economy and the inflation outlook."

We continue to see the RBA pausing in their tightening cycle at the March Board meeting. Inflation expectations remain anchored and the recent business surveys suggest that inflation pressures are starting to dissipate, albeit from elevated levels."

There's more of a fight between the stockmarket bulls and bears than usual at the moment. Wall Street is excited by the possibility of a Fed pivot, where it eases up on interest rate increases. The problem with the interest rate optimism is it misses the other major factor affecting companies: their earnings.

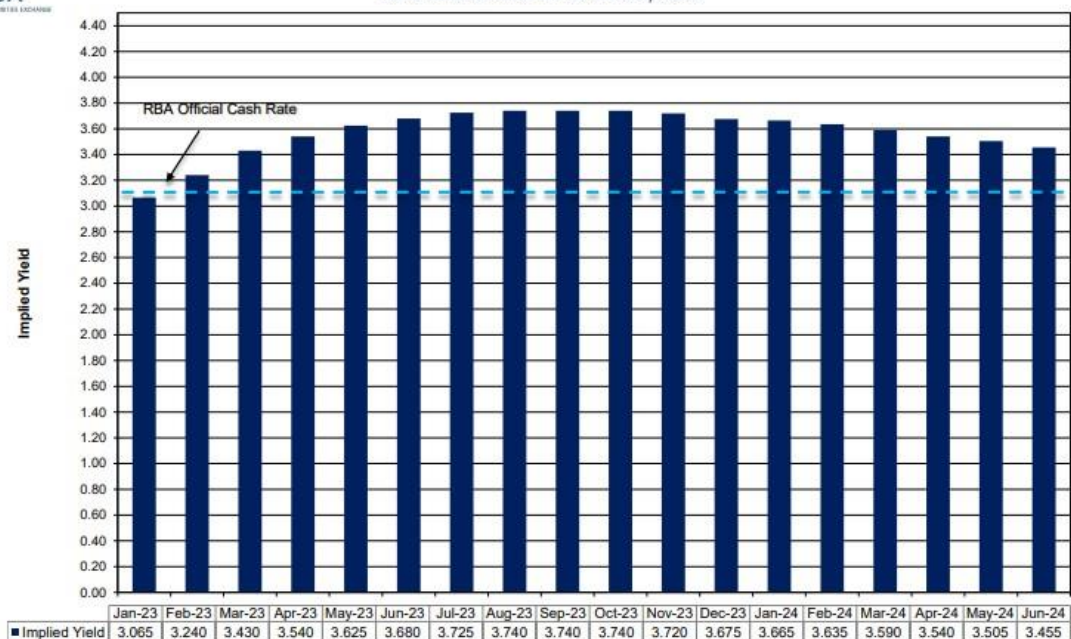
This **Morgan Stanley** chart is a reminder that challenges lie ahead even if central banks stop tightening. The Fed has made it clear it will sacrifice growth to control inflation. The current Fed Funds rate is 4.25% and the CEOs of the big banks such as **JP Morgan and Bank of America** are saying it will go well over 5% and stay there for all of 2023. That's much higher than companies have seen for many years, and US business and retail indicators are struggling while energy prices are rising again. It's difficult to justify the early 2023 stockmarket optimism.

Market expectations for future cash rates, as shown below, are well off their highs although not as low as CBA's forecasts, but they kicked up on Wednesday following the inflation release. There may be some relief for borrowers who were worried about cash rates well over 4% a few months ago.



ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve

As at market close on 25 January 2023



On the back of the high inflation rates, the Transfer Balance Cap, currently \$1.7 million, is set to jump to \$1.9 million on 1 July 2023, which also affects the Total Super Balance. Anyone considering starting a superannuation pension soon should take advice on waiting until July, especially as it affects the amount of non-concessional contributions. Remember, the higher limits only apply if you have not yet started a pension.

Two articles from me this week.

First, I gave myself 30 minutes to write an article using **Open AI (ChatGPT)**. I asked it [six questions relating to investing and superannuation](#) and the answers were impressive. See what you think, and consider how it might change the future of search and content creation - and maybe my job.

Second, a check of the Annual **Morningstar** Gameboard for lessons in [20 years of asset class performance](#). Winners rarely repeat and losers can become winners again, showing the difficulties in forecasting returns.

Graham Hand

Also in this week's edition ...

Richard Dinham outlines a new report from *Fidelity International* that suggests most older Australians are not actively planning for the final chapters of their working life. And critically, the [runway to retirement is shorter than expected](#) – most of us don't work for as long as we intend to.

Meanwhile **Doug Drysdale** provides a cautionary tale about being the executor of an estate. As an actuary, he expected that being executor of his brother's will would be straightforward, yet it proved anything but. He [outlines the traps to avoid](#).

Julian McCormack of *Platinum Asset Management* looks at what he considers the world's most important industry, and the least understood: Chinese property. While many investors see it as an asset bubble deflating, Julian believes it's anything but a bubble and represents a compelling [opportunity for contrarian investors](#).

Andrew Macken of *Montaka Global Investments* is taking a glass-half-full approach to last year's market downturn. He thinks global market leaders in attractive industries are now being priced at multiples far below their intrinsic values. Andrew identifies five ways that investors can position their portfolios for a [more optimistic market outlook in 2023](#).

In this week's white paper, with increased interest in private debt and prospects for a challenging economic period ahead, **Revolution Asset Management** asks: [is private debt ready for recession?](#)

Curated by James Gruber and Leisa Bell

The familiar story on dividends, plus predictions for 2023

Peter Thornhill

(Editor's introduction: Peter Thornhill is well-known to our readers for advocating a multi-decade investment strategy based on the long-term merits of industrial companies for income. For example, to show his consistency over time, his previous articles in Firstlinks are [here](#). In this short update for 2022 numbers, he again checks the long-term return from industrial shares, adding a comparison with listed property. He argues that for investors with the right risk capacity and investment horizon, there's only one place to invest).

It's that time of year when the data allows me to update the presentation many readers are familiar with, based on my books, courses and articles.

There are many definitions of 'investing'. For me, it means one thing: **The use of money productively, so that a regular income is obtained.**

This guides my portfolio decisions. I do not focus on the so-called volatility of share prices. Over decades, I see a rising stockmarket producing ever-increasing dividends. And that's income for me.

Industrial share versus cash since 1980

Let's start with my key slide, Australian industrial shares versus cash. Term deposits and cash are where many investors hide for safety, but how do they define risk?

The 'Covid crash' of 2020 is like all previous market setbacks. They are relatively short-lived.



Whilst this time, share prices were not overly affected, dividends were severely hit. However, as expected, dividends are recovering quickly as the effects of the lockdown dissipate. If one is in tune with history then this pandemic is no different to those we've been exposed to for the last 2000 or so years.

My 56-year investment

This next slide regular readers will be familiar with. It is a UK-listed investment company which forms part of my investments resulting from an 18-year sojourn in the Old Dart back in the 70's.

Despite all the current and prior market turmoil, this chart is always a source of comfort. An income that has risen every year for the last 56 years.



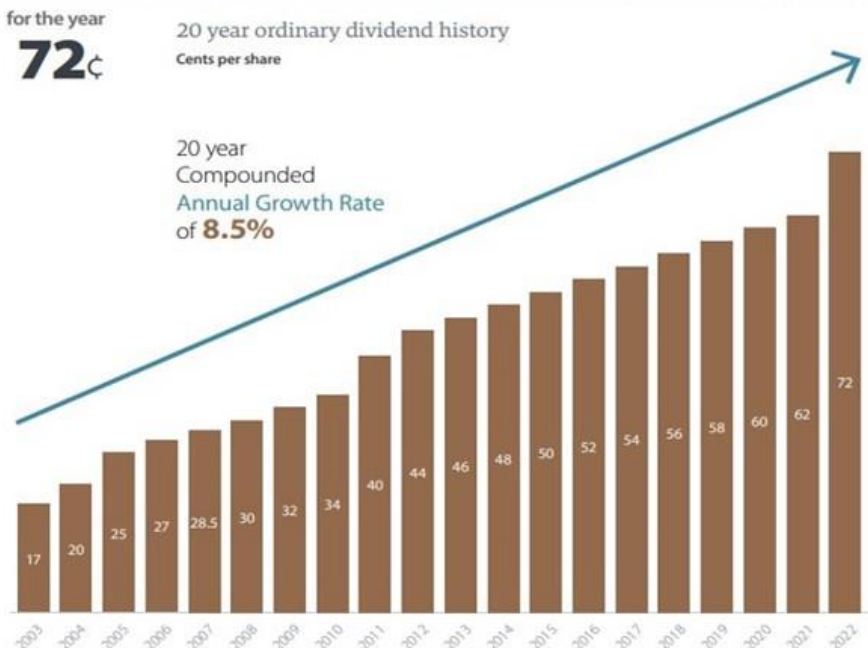
In our home market, there are similar Listed Investment Companies (LIC's) displaying the same characteristics.

Milton is a great example, although it has now merged with Soul Pattinson.

Increase fully franked dividends paid to shareholders over time



The Soul Pattinson dividend history is equally comforting.



Another one of my favourites is Whitefield which is celebrating its 100th anniversary this year.

My strong preference for this one is the fact that it only invests in industrial companies and no resources.

Despite earnings volatility, the ability of a LIC to smooth their dividends is clearly evident.

Suffice to say that with an ever-growing income stream over 30, 40, 50+ years, one's life can remain focussed on what is really important: family, friends, and career.

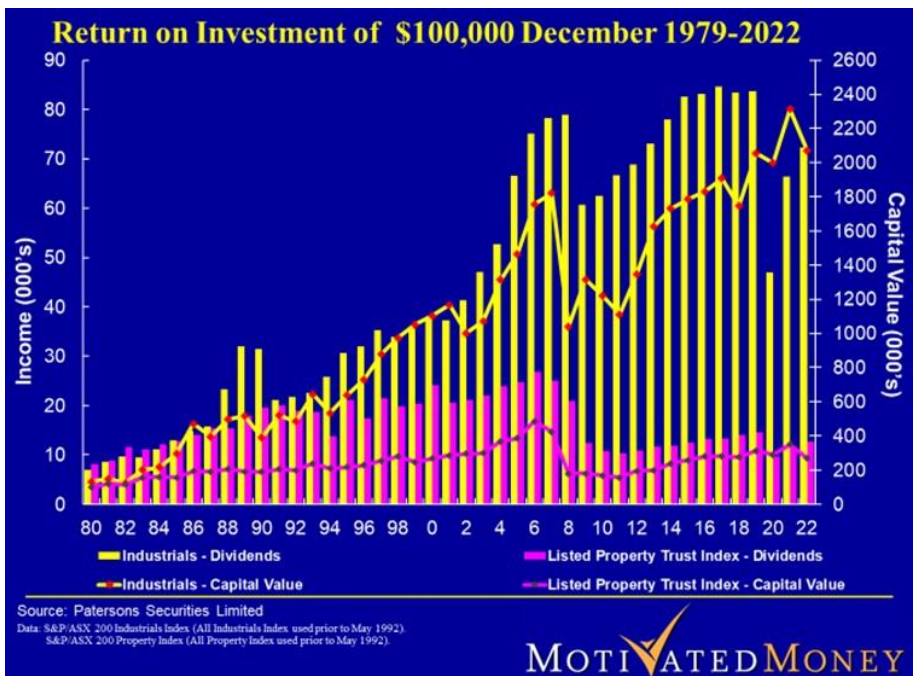
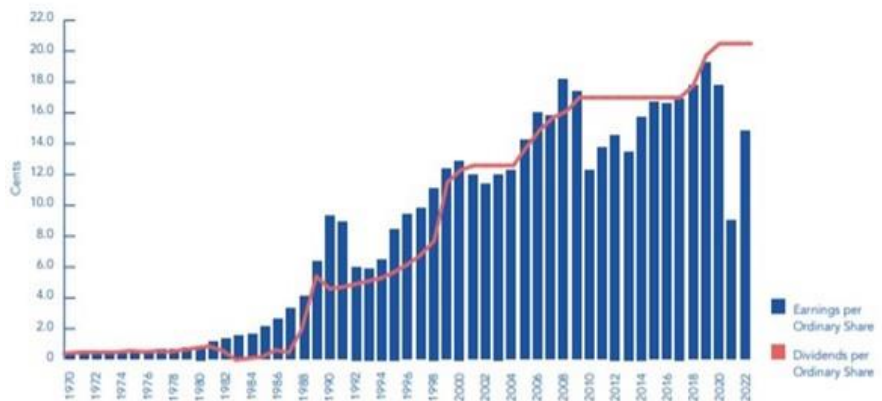
What about the long term of listed property?

Firstlinks often includes articles on the benefits of investing in property, including listed securities. It's an asset class that probably appeals to many Australians.

I believe adding property and resources to industrial shares is a no-no. Whilst it may slightly reduce the volatility, the opportunity cost over a lifetime is lead in the saddle bags. Volatility does not measure risk!

Despite some good periods, property suffers times of significant setbacks.

Earnings and dividends per ordinary share



10 predictions for 2023

Like religion, financial forecasting meets a human desire to know the unknowable. It doesn't matter whether the forecasts are accurate or not, people sleep better at night under the assumption that there's a predictable future laid out ahead of them. Here are a few of mine for 2023:

1. A lot of things will happen that no forecaster thought to include in their predictions for 2022. These events will include the obvious consequences of the current economic and political environment. So obvious, in fact, that they weren't included in the predictions.
2. Many things won't happen that many forecasters did include in their predictions for 2022. This will be a result of unforeseen circumstances, black swan and six sigma events, annual anomalies that crop up one in a million years.
3. A small number of the vast number of predictions about 2022 will randomly come true and the predictors will be proclaimed gurus. This will be despite the fact that it was their 1,000th prediction and the first one they got right.
4. All predictions will be adjusted throughout the year so that the forecaster's final prognostications, announced on Christmas Eve 2023, will be very close to accurate.

5. Those fund managers who outperform for the year will cite their skills, systems, intelligence and uncanny ability to time the market as the reasons for their outperformance. While acknowledging that past returns are no guarantee of future returns, the past returns will be included in advertising materials in very large font.
6. Those that underperform will cite the randomness of markets and that any one bad year will obviously be followed by a good one, because underlying it all they have superior skills, systems, intelligence and uncanny ability to time the market. Marketing materials will include performance statistics over a more appropriate time frame.
7. Dividends will be more important than capital gains, unless the market goes up a lot. If the market goes up a lot, capital gains will be more important than dividends.
8. Every CEO in the country will be in the top quartile of CEOs in the country. They will get paid accordingly.
9. Markets will fluctuate. The All Ordinaries will go up, down or sideways in both the first and second halves of the year.
10. There will be a new computer trading system that will infallibly make you rich overnight as none of the systems sold over the last 20 years seem to have worked for anyone else apart from the spruikers.

Peter Thornhill is a financial commentator, author, public speaker and Principal of [Motivated Money](#). He runs full-day courses in the major capital cities explaining his approach to investing "in the vain hope that not everyone is frozen with fear". This article is general in nature and does not constitute or convey specific or professional advice. Share markets can be volatile in the short term and investors holding a portfolio of shares will need to tolerate short-term losses and focus on a long-term horizon, and consider financial advice.

A 30-minute article using OpenAI ... and there goes my job

Graham Hand

It usually takes me a few days to write a comprehensive lead article. I will give myself 30 minutes to complete this piece including establishing an account with OpenAI, asking six common investing questions and giving a short introduction.

I originally intended to write a summary about how OpenAI works but then I thought, what the heck, it can do the job itself (and ChatGPT is similar).

To keep to my time limit, I'll let you be the judge of the quality of the answers with only a brief comment from me.

My overall verdict? Impressive. There's a bit of rambling which the editor in me would remove, with too much use of redundant phrases such as "*It's important to note ...*". It often wastes space by repeating the question in the answer. The advice on how to select a fund manager was especially verbose. OpenAI can't even work it out, so what hope the rest of us.

I also asked a couple of questions that required a forecast, such as how will the stock market perform over 2023, and it refused to answer:

"I'm a language model AI, I don't have the ability to predict future events such as the stock market's performance."

All the analysts, fund managers, economists and tea leaf readers out there are safe for now. You can pontificate all you want without an AI threat.

Here are the responses from OpenAI, and as I write this sentence to complete the article, 30 minutes is up.

How does OpenAI work?

OpenAI is a research laboratory focused on artificial intelligence (AI) and machine learning. OpenAI develops and runs a range of projects and programs to advance the development of artificial general intelligence (AGI) and deep learning. OpenAI researchers create and study algorithms that can learn to solve complex problems, such as recognizing speech or playing games. OpenAI also works to bring together the best minds in AI

research, including those from academia, industry, and the public, to work together on breakthroughs in the field. In addition to its research activities, OpenAI also develops and deploys products and services that help people use AI technologies safely and ethically, including building and sharing open-source libraries and tools.

Six investment-related questions

1. How does an investment strategy of a 20-year-old differ from a 60-year-old?

An investment strategy for a 20-year-old may involve taking on more risk in order to potentially earn higher returns, as they have a longer time horizon to weather market fluctuations. This may include investing a larger portion of their portfolio in stocks and other growth-oriented assets. On the other hand, a 60-year-old's investment strategy may focus more on preserving capital and generating income, as they may be nearing retirement and have a shorter time horizon. This may include investing a larger portion of their portfolio in bonds and other income-generating assets, as well as potentially reducing exposure to stocks. It's important to note that everyone's situation is unique, and an investment strategy should be tailored to an individual's specific goals, risk tolerance, and time horizon.

2. Why do most active fund managers fail to outperform an index or benchmark?

There are several reasons why most active fund managers fail to outperform an index or benchmark. One reason is that the markets are generally efficient, meaning that most publicly available information is already reflected in the prices of securities. This makes it difficult for active managers to find undervalued securities that they can buy at a discount and then sell for a profit.

Another reason is that there is a lot of competition among active managers. With so many professionals trying to beat the market, it becomes increasingly difficult for any one of them to consistently find mispriced securities. Additionally, the cost of active management is usually higher than passive management, and these costs can eat into returns.

Lastly, active managers tend to underperform in bear markets, as they tend to sell their positions, and also they tend to have higher turnover, which results in higher transaction cost and taxes.

It's important to note that, while the majority of active managers underperform, there are some who do outperform their benchmark, but it's difficult to predict in advance which ones will be the successful ones.

3. Should the Australian superannuation system be abolished?

The question of whether the Australian superannuation system, also known as the country's mandatory retirement savings plan, should be abolished is a complex and highly debated topic.

On one hand, the superannuation system has been successful in helping many Australians save for retirement and build a nest egg for their golden years. The system has also helped to diversify the country's economy by channeling funds into investments such as infrastructure and real estate.

On the other hand, some argue that the superannuation system is too complex and that the fees charged by funds are too high, which can eat into returns. Additionally, the system has been criticized for not providing enough flexibility for individuals to access their funds in times of need.

In any case, abolishing the superannuation system would require a significant overhaul of the country's retirement savings infrastructure and would likely have major implications for the economy and for individual Australians.

It's worth noting that, the Australian government has made some changes to the superannuation system in recent years to make it more efficient, fair and sustainable.

4. How much can a person spend in retirement and not run out of money?

The amount that a person can spend in retirement without running out of money depends on several factors, including the size of their nest egg, their expected lifespan, the rate of return on their investments, and the rate of inflation.

A commonly used rule of thumb is the "4% rule," which states that a retiree can safely withdraw 4% of their nest egg in the first year of retirement and then adjust for inflation in subsequent years. For example, if a retiree has a nest egg of \$500,000, they could withdraw \$20,000 (4%) in the first year, and then increase that amount each year to keep pace with inflation.

However, this rule of thumb is not a one-size-fits-all solution, and the actual amount that an individual can spend in retirement will depend on their unique circumstances. Factors such as the retiree's age, health, and lifestyle will affect the amount that they can safely withdraw. Additionally, unexpected events such as a recession or a prolonged period of low returns on investments can also impact the amount that a retiree can spend without running out of money.

Ultimately, it's important for retirees to have a plan in place that takes into account all of these factors, and to also be prepared for unexpected events. It's also a good idea to have a safety buffer to provide a cushion in case of unexpected events.

5. How do you select fund managers who will outperform?

Selecting fund managers who will outperform is a complex task, as past performance is not always indicative of future returns. However, there are several factors that can be considered when selecting a fund manager:

1. **Track Record:** A fund manager's past performance can provide some insight into their abilities, but it's important to look beyond short-term returns and consider the manager's long-term track record.
2. **Investment Philosophy:** A fund manager's investment philosophy and strategy can also be an important factor to consider. It's important to understand how the manager views the markets and how they make investment decisions.
3. **Risk Management:** A fund manager's approach to risk management can be a critical factor in determining their ability to generate consistent returns over time.
4. **Experience and Qualifications:** The fund manager's experience, qualifications, and professional accreditation can also be relevant when evaluating a fund manager.
5. **Cost:** It's important to consider the fund's expense ratio, management fee and other costs, as these can have a significant impact on the fund's returns over time.
6. **Process and People:** The fund management team, their process, the resources they have and the alignment of interest with shareholders are important factors to consider.

It's important to note that, even with due diligence and analysis, there's no guarantee that a fund manager will outperform in the future, and even the best fund managers may underperform at times. Diversification and regular monitoring of a portfolio will help to mitigate risk and increase the chances of achieving long-term investment goals.

6. Do fund managers need a macro view to select company stocks?

Fund managers typically use a combination of both top-down and bottom-up analysis when selecting company stocks.

Top-down analysis, also known as macro view, involves looking at the overall economic and market conditions to identify sectors or industries that are likely to perform well. This approach focuses on the big picture and can help fund managers identify trends and opportunities that are not visible at the individual stock level.

Bottom-up analysis, on the other hand, involves analyzing the financials and fundamentals of individual companies to identify those that are likely to perform well. This approach focuses on the micro-level and can help fund managers identify companies that are undervalued or have strong growth prospects.

While both approaches have their advantages, a good fund manager will likely use a combination of both, in order to make a well-informed decision. This can help them to identify companies that are well positioned to perform well in the current economic and market conditions, while also taking into account the long-term potential of individual companies.

It's important to note that, a fund manager's approach can vary depending on the fund's investment strategy, the fund's mandate and the fund's objective. Some funds may focus more on growth, others may focus more on value, and others may focus more on dividends.

Final thoughts

Let us know what you think in the comments section.

As a footnote, I continued asking questions after my 30 minutes was up, and found some of the answers superficial and even wrong. For example, it struggled to define the meaningful differences between ETFs and Listed Investment Companies. Maybe my job is safe for now, but for technology in its infancy, it's surprisingly clever.

Graham Hand is Editor-at-Large for Firstlinks, at least until AI replaces him. He is not responsible for any of the answers to these questions, and people should seek advice from OpenAI (sorry financial advisers) for any further information.

The runway to retirement is shorter than expected

Richard Dinham

Now is a great time to be an older Australian in the workforce. With full employment, the demand for local, skilled workers is at a record high.

It's becoming more comfortable to work as well. Since COVID, flexible work arrangements have become commonplace and are widely accepted by most employers. In addition, most older Australians want to work longer than previous generations did, transitioning into retirement over time.

But, despite these opportunities and good intentions, most older Australians are not actively planning for the final chapters of their working life.

In our new study, *New Life, Old Life*, we find that the runway to retirement is shorter than expected – most of us don't work for as long as we intend to. Sometimes the reasons are out of our control; sometimes, they're not.

Whatever the conditions that bring about our retirement, there are always things we can do to prepare and improve our circumstances – and, more importantly, our quality of life.

Opportunities for older workers

The pandemic has accelerated the changing landscape of work in Australia. Knowledge-worker industries have shifted from the traditional nine-to-five, office-based model to a more flexible working arrangement, with remote working usually a component.

The outcome is that many jobs can now be performed from home without a peak-hour commute or dedicating an entire day to the office.

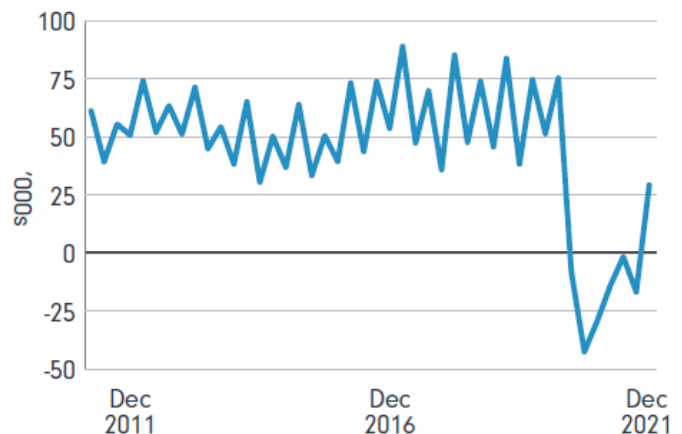
These new ways of working present an opportunity for older Australians in the workforce, especially those with higher education or skill backgrounds.

In addition, there is a unique mix of factors that are currently providing opportunities for older knowledge workers. Since the start of the pandemic, Australia's strict border controls have seen a negative net overseas migration.

Specifically, 112,900 more people left Australia than arrived between March 2020 and September 2021. Since then, net migration has rebounded but is still not at pre-COVID levels.¹

This lack of migration to Australia has stifled Australia's supply of skilled workers. With the economy still growing, the unemployment rate in Australia is at historic low levels – 3.4% in October 2022.

Figure 1: Net overseas migration dipped markedly when borders closed



Sources: ABS National, state and territory population, December 2021; and [Scanlon Foundation Research Institute](#)

This is great news for older Australians planning the wind-down phase of their careers.

The low unemployment rate, combined with the lack of skilled workers, means there is a real opportunity for older workers, who may have been overlooked in the past, to continue contributing to the workforce.

Moreover, the pandemic has led to a rethinking of what work means and what is really important in life. Workers now have higher expectations of their employers, demand work-life balance and flexibility, and feel it is the responsibility of businesses to take societal action.

The [Return on Action Report Australia](#), commissioned by Atlassian, found that in the year to March 2021, 29% of workers have experienced an improvement in work-life balance and 26% work more flexibly than a standard nine-to-five workday.

Almost two-thirds (64%) agreed that their employer has been supportive of flexible and remote working.

The runway is shorter than expected

Older Australians often intend to take advantage of the new ways of working, but it doesn't work out that way.

The average age at which Australians plan to reduce their work commitments and transition into retirement is 62.5 years, and the average age we would like to retire fully is 64.8 years.

But the reality is different. The average age at which Australians start reducing their work commitments is 61.4 years, and the average age we fully retire is 63.4 years.

These averages reflect the fact that one in three older Australians who planned their retirement did so earlier than they intended.

The top three reasons for retiring earlier than planned were that they were suffering from personal health issues (two in five), they were required to care for someone suffering from health issues (one in eight), or they were made redundant and lost their job (one in eight).

Therefore, it makes sense that one in four retirees report feeling out of control at retirement.

The sooner you start planning, the better

If there's a risk you may be forced into an earlier retirement than intended, it makes sense to start planning early. The good news is that pre-retirees are the most open to receiving advice.

Four in five pre-retirees currently receive advice, have received advice in the past, or would consider receiving financial advice. And, of the pre-retirees who have never received financial advice, three in five are open to it.

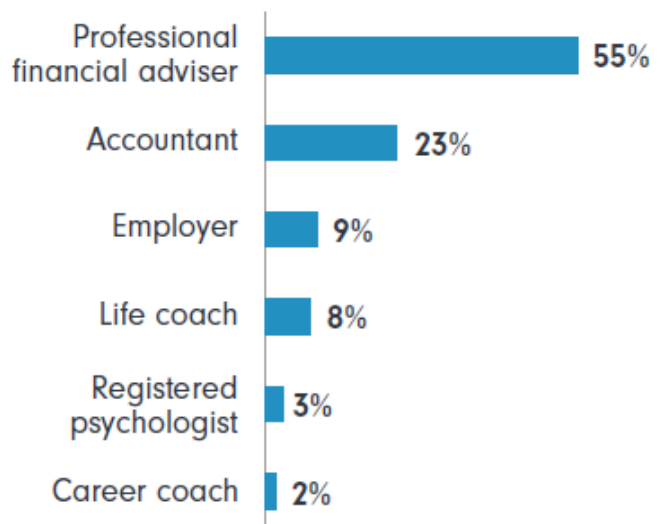
The preferred professional to seek advice from is a professional financial adviser. More than twice the number of respondents would seek professional support from a financial adviser than an accountant.

Figure 2: Australia's unemployment rate is at a historic low



Source: ABS Labour Force Status Aug 2022

Figure 3: Financial advisers are the preferred source of professional advice



And professional financial advisers are preferred over employers as a source of information, by a factor of more than five to one.

Compared with semi-retirees and early retirees, pre-retirees have the lowest life satisfaction. One reason is the prevalence of financial stress. Around one in two pre-retirees worries about money at least monthly; one in three worries about money daily.

Pre-retirees feel the least financially capable, have the lowest emotional resilience and are the least likely to live consistently within their values system. That’s not a coincidence – when we live according to our values, we are happier and more resilient.

The importance of a sense of control

Major life changes like retirement are challenging. Pre-retirees approach retirement cautiously, wary of the number of uncertainties around this unknown period of life.

A key driver of a positive emotional experience at retirement is a sense of control, or agency, in the decision.

Those who felt completely in control of when they stopped working full time had an overwhelmingly positive emotional experience – nine in 10 experienced positive emotions, and only one in 10 experienced negative emotions.

But those who didn’t perceive they had a choice in when they stopped full-time work had a terrible time. Seven in 10 of those who felt completely out of control experienced negative emotions when they stopped full-time work, and less than one in two experienced positive emotions.

A sense of control over the retirement event is not just a driver of emotional experience, it is also a key driver of life satisfaction. Semi-retirees who felt completely in control of when they finished working full time have higher life satisfaction than those who felt less in control.

Those who felt completely out of control when they stopped working full-time have the lowest life satisfaction scores.

On a scale of zero to 10, where zero is no life satisfaction and 10 is perfect life satisfaction, those who perceived they were completely in control have a life satisfaction score of 7.6.

However, those who felt completely out of control have a life satisfaction score of just 5.9.

Satisfaction with wealth is also strongly correlated with feeling in control of retirement.

Four in five of those who felt completely in control of finishing full-time work are satisfied with their current wealth, while less than two in five of those who felt completely out of control are satisfied with their wealth.

Taking control of retirement

We can’t control everything when it comes to our retirement, but there are some things we can control. With a little planning, we can control the

Figure 4: Sense of control drives emotional experience

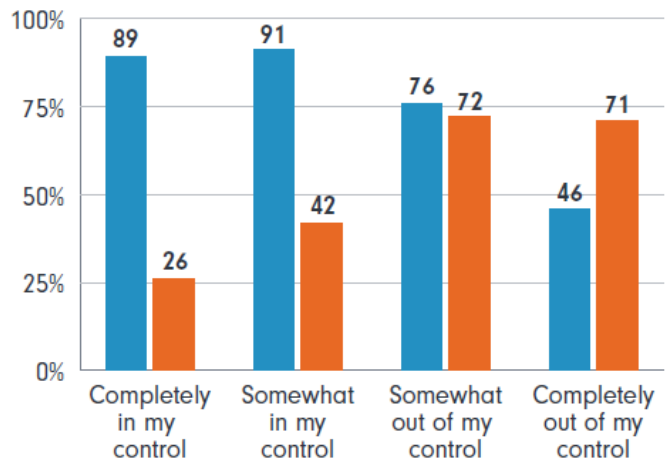
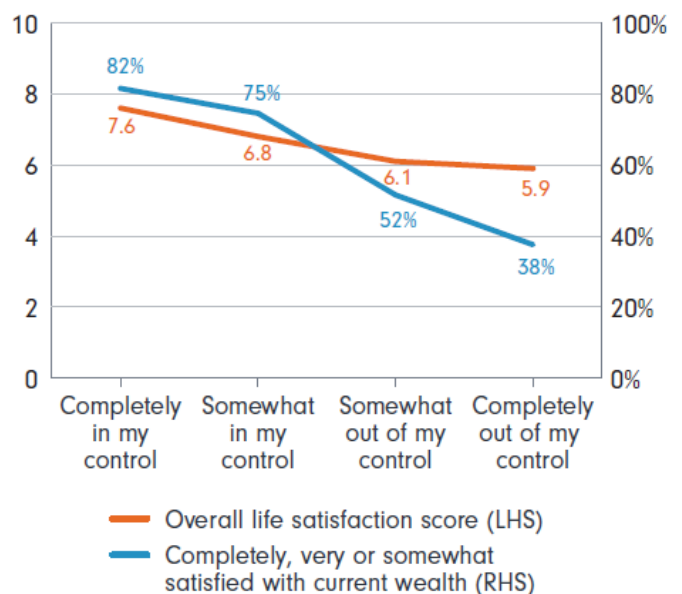


Figure 5: Sense of control drives life and wealth satisfaction



likelihood of being made redundant, and we can control the consequences if we suffer from ill health or we're required to care for someone suffering from ill health.

Most of us put lots of energy into building our careers, but not necessarily the inevitable wind-down phase of our careers. And while most of us say we want to transition into retirement, very few take active steps to make it happen.

Extracted from Fidelity's report [New Life, Old Life](#).

Richard Dinham is Head of Client Solutions and Retirement 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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Watch out, it's not easy being the executor of an estate

Doug Drysdale

I have been a football tragic since childhood and have played with, and against, the Editor of Firstlinks, Graham Hand, for many years. We currently play in a geriatric (age 60 and above) football match each week. In recent months, Graham has been the recipient of many verbal blasts from me about the frustrations I have felt as Executor of my late brother's estate. Given that many readers of Firstlinks are likely to be asked to be an Executor at some stage in their lives, I am sharing some of my frustrations and what I would do differently if I am in this position again.

I am an actuary who has spent his working life around the superannuation industry, including consulting to major funds, and despite this, I found working with the procedures and institutions difficult.

The facts

My brother passed away on 28 May 2022 after a long illness. His partner had died over 20 years ago and he had no children. In recent years, he had simplified his financial assets so that on death, his only assets were his apartment, his superannuation benefit in the large industry fund REST, and a bank account.

For several years, I have held his Power of Attorney and he had nominated me as his Nominated Beneficiary in REST. Under his will, I was also the Executor. The final will, executed shortly before he died, stated that the superannuation benefit would meet the costs of the funeral and the balance then be distributed to 12 of his friends and relatives.

Believing myself to be financially literate, in what I thought was a fairly straightforward death benefit situation, I was happy to accept the role of an Executor. It is critical to remember, however, that superannuation does not form part of an estate unless and until the Trustee of the super fund decides to pay the benefit to the estate.

What would I do differently?

1. Nomination of Beneficiary

When my brother joined REST, he put my name on the application form as his Nominated Beneficiary. He nominated me as it was his wish that, as Executor of his estate, I would distribute the benefit to his various friends and relatives in accordance with his will. He was not familiar with superannuation law and he did not nominate me in my role as the Executor of his estate, which would have avoided most of the subsequent issues and delays in getting the benefit paid by REST.

In particular, his nomination of me as an individual was actually invalid, as superannuation benefits on death can only be paid to a legislatively-defined group of persons, including a spouse, a child, someone who is financially dependent on the deceased or in an inter-dependency relationship with the deceased, or to the deceased's estate. However, at the time he joined REST, his occupation was postman, and he was unaware of the intricacies of death benefit nominations. I now regret that I did not check and ask him to change the nomination to me as the Executor of his estate before he died.

After my brother's death, REST was given the will and could clearly see that I was his Executor. However, to comply with what they saw as their fiduciary duty, and possibly their own deed and rules, they commenced looking for other persons who could be considered by the Trustee to receive a part, or all, of the benefit directly.

As part of this procedure, known as 'claim staking', they wrote to two of the beneficiaries mentioned in the will, asking if they wanted to be considered by the Trustee to receive a benefit directly from REST. If those beneficiaries of the will had agreed and REST had paid them directly, it would have caused an additional problem, as they could still have been entitled to their benefit under the will. Fortunately, neither wanted to be considered by the Trustee, but the process caused a further significant delay in paying the benefit. Again, this would have been avoided had I been nominated in my capacity as Executor of the estate.

2. Binding Nomination

I should have asked my brother to change his nomination to a Binding Death Benefit Nomination to me as Executor of his estate, as this would have removed the Trustee discretion in determining the benefit recipient. It would have resulted in a faster payment and avoided any possibility of a beneficiary of the estate being paid twice. Binding nominations are a little more complicated and in some cases are required to be renewed every three years.

If not required to be renewed, they need particular care if a person's circumstances change, for example, remarriage. However, if it had been a Binding Nomination, I was told by REST that the Trustee would not have commenced the claim staking procedures.

3. Withdrawal before death

Before my brother died, I did consider asking him to withdraw the full benefit from REST while still alive. His benefit would then have been paid tax-free, whereas, if the benefit was paid after death there was the possibility of some tax liability. Most of his benefit, however, was from undeducted contributions (therefore not taxable further on death) and hence the tax payable would have been very small.

Naturally, I found this to be a difficult issue to raise with him in his last few months and I kept putting it off. As he had deteriorated both mentally and physically and he could no longer sign, I would have had to use my Power of Attorney to get the fund to make the payment. He had previously been close to death and pulled back each time and it was possible that he would do so again.

I incorrectly assumed that getting the death benefit paid by REST would be straightforward and reasonably quick, so I never raised the issue of withdrawal before death with him. Given the actual delay of over six months, I now believe I should have acted, although this may have resulted in other challenges and delays related to the Power of Attorney I held.

4. Setting up a bank account

The first requirement of an Executor should normally be to establish an estate bank account. I did not. Funeral costs were met by myself and my brother's solicitor's trust account, to be repaid later.

In late September 2022, I received a call from REST in which I confirmed my earlier request, made in a discussion with the death claims section, that the benefit be paid as an EFT to my bank account, as opposed to being payable to the estate. However, in October 2022, I received a letter from REST saying that the Trustee had decided that the death benefit must be paid to "The Estate of the late (my brother)".

As no such bank account existed, I phoned my main bank, Macquarie, and asked if they would accept the cheque into my account as I could show that I was the Executor of the estate. They refused and said I would have to open a new account.

I spent several days talking to three banking institutions to establish an appropriate account in the name of "The Estate of the late (my brother)". As the types of cash management accounts offered by Macquarie do not include accounts for estates, I was advised to set it up as a trust but that failed as there was no trust.

I next went to NAB, with whom I also have an account. They also advised they would not accept the cheque into my personal account. They advised that the cheque should be paid into an account at my brother's bank, Great Southern Bank in Queensland. Great Southern Bank advised that his account had been closed and they would only re-open it if I created a new personal account for myself, which I neither need or want.

I then went back to REST asking if 'my name as Executor for' could be added to the cheque but was told this could only be done by challenging the Trustee decision, which would lead to a further delay of 90 days or more.

In the end, my brother's solicitor said that his trust account could accept the cheque, so the best part of a week spent phoning multiple banks and REST, hanging on for up to 30 minutes for each call, was a total waste of time.

What I was not told by the banks at the time, but found out later, was that I should have asked for the account to be set up in the name of 'The Executor of the Estate of the late (my brother)'.

Dealing with REST

1. Information requirements

I thought some of REST's requirements were excessive. For example, I was asked for the death certificates of our parents. Our father died in 1957 and our mother in 2002, both in Ireland. My brother was 77 when he died and our parents, if alive, would have been 108 and 110. I have never seen their death certificates.

I was told by REST that when someone dies without a spouse or children, they may leave their benefit to their parents. Despite the fact that our long-dead parents, not being financially dependent on my brother, would not have been valid recipients of his benefit, I was required to draw up and deliver to REST a Statutory Declaration stating that our parents were no longer alive.

2. Payment of benefit

The letter I received in October 2022 stated that objections to the Trustee decision could be made within 28 days. If there were no objections then "... the benefit will be paid in accordance with the above proposed distribution after 15 November 2022". I asked if I could collect the cheque directly from REST after that date but was told the cheque would be posted.

There were no objections to the Trustee decision and therefore I was expecting to receive the cheque in the mail in the days following 15 November 2022. Given this, I was perhaps over-enthusiastic in writing to all of his beneficiaries advising that payment should be made late November and asking for details of their bank accounts.

Some of his beneficiaries are quite old and are not well off and are on the age pension. They were very much looking forward to receiving their bequest. I was contacted by some of them when their benefit did not arrive as I had advised.

I checked the mail every day after 15 November but no cheque arrived. I eventually contacted the fund on 24 November and was told the cheque had been drawn on that day. I was told it could take another 5-10 business days before it would be posted but it would then be sent by Express Post.

Again, I asked if I could collect it but was told this is not allowed, even if I provided photo ID. This would be more secure than putting a large cheque in the mail, as well as avoiding further delays. I do not know why REST insisted on a posted cheque when I wanted an EFT. The cheque eventually arrived in the mail on 9 December 2022, dated 2 December 2022.

I realise that some death claims are complicated with divorces, divided families, competing claimants etc. In those cases, the Trustee needs to make careful enquiries to determine the proper recipient. However, in the case of my brother's estate, it was a straightforward claim, but it took over six months from the date of death to receiving the payment. With the knowledge I have now, however, perhaps some of the problems and delays could have been avoided.

I hope my experience may help others to avoid similar problems in the future.

SMSF versus Industry Funds

There have been some articles in Firstlinks recently on transferring superannuation from a SMSF to a public offer fund as the members age and find it is becoming more difficult to manage their own fund.

The decision to close an SMSF and transfer to a public offer fund is a complicated one involving many issues such as compliance, investments, loss of control, governance, costs etc. Also, the time and effort to close an SMSF can be excessive without the help of someone who has gone through the process before. Although it is not the most important issue, the passing of decision-making power on the recipients of death benefits from the SMSF trustee to the trustee of the public offer fund needs to be one of the issues considered.

REST is now reviewing its procedures

Following the distribution of the estate, I provided detailed feedback to REST on my experience. I received a call appreciating my comments and promising a thorough review of their death benefit procedures.

Doug Drysdale is an executive at PFS Consulting, an actuarial and risk consultancy. This article is general information and does not consider the circumstances of any other person.

The most important industry globally which few understand

Julian McCormack

Many investors see Chinese property as an asset bubble that is popping; we see things differently (as discussed [here](#)). If anything, it's a good example of an 'anti-bubble' and presents a compelling opportunity for investors like us.

In his excellent book *Principles for Navigating Big Debt Crises*, Ray Dalio gives a simple framework for spotting bubbles:

- Prices are high relative to traditional measures;
- Prices are discounting future rapid price appreciation from these high levels;
- There is broad bullish sentiment;
- Purchases are being financed by high leverage;
- Buyers have made exceptionally extended forward purchases (e.g. built inventory, contracted for supplies etc.) to speculate or to protect themselves against future price gains;
- New buyers (i.e. those who weren't previously in the market) have entered the market; and
- Stimulative monetary policy threatens to inflate the bubble even more (and tight policy will cause it to pop).

Few of these have been present in China for over a decade. Yes, there is leverage in the system, but sentiment is terrible, asset prices are generally moderate-to-low, and officials have been seeking to curtail activity, not stimulate it. Put another way, China looks very much like a place that has had a financial crisis in a [long, drawn-out fashion](#) since the heady days of high equity prices and exuberance of the late 2000s.

It seems to us reminiscent of Japan in the early 2000s – deep into a multi-decadal bear market and regarded as hopeless by most. The Nikkei 225 went on to triple over the next two decades.^[1]

But what if there is no catalyst? Japanese equities have provided us with decent returns (six-fold returns in 20 years in our Japan Fund^[2]), with Japanese equities *de-rating* the entire time – earnings and dividends drove all of the returns, even as Japanese equities' multiples declined. This is the nature of anti-bubbles.

We think we see something similar in Chinese residential property. Markets work in cycles, and this may well be what the bottom of a market cycle looks like.

Central to all clichés is a kernel of truth. Property prices in China have fallen, as has new build activity, and consumer confidence is low. Note how these conditions are the reverse of Dalio's bubble checklist above. Commentators 'know' that the industry is 'a Ponzi scheme' in the grip of 'a slow-motion crisis' (see [here](#) and [here](#)).

And yet we have owned property developers in China and made money. Perhaps we are reckless, taking huge 'risks' by owning such companies? Or perhaps, when everyone 'knows' how terrible the outlook for an industry

is and the facts belie this 'knowledge', one has found an anti-bubble, and can commit capital with low risk, despite the discomfort of swimming against the tide?

Facts belie the negative sentiment

In the case of the Chinese property market, the facts do indeed belie the prophesies of doom.

Contrary to most commentary, Chinese property prices have risen in an unremarkable fashion, both relative to other countries and relative to incomes or nominal gross domestic product (GDP). For instance, [real house prices](#) in China appreciated at a slower rate than those in Germany in the decade to the end of 2020. Government revenue from land transfers, which is at the core of the Chinese residential property industry, has grown more slowly than nominal GDP over the last 17 years.

Further, Chinese house prices, as collected by the equity research team at citi, have appreciated by far less than nominal GDP growth since 2005.

Simply put, Chinese property prices have increased a great deal in the last few decades, but why wouldn't they in a fast-growing economy with rapid household income growth and a colossal urbanisation drive?

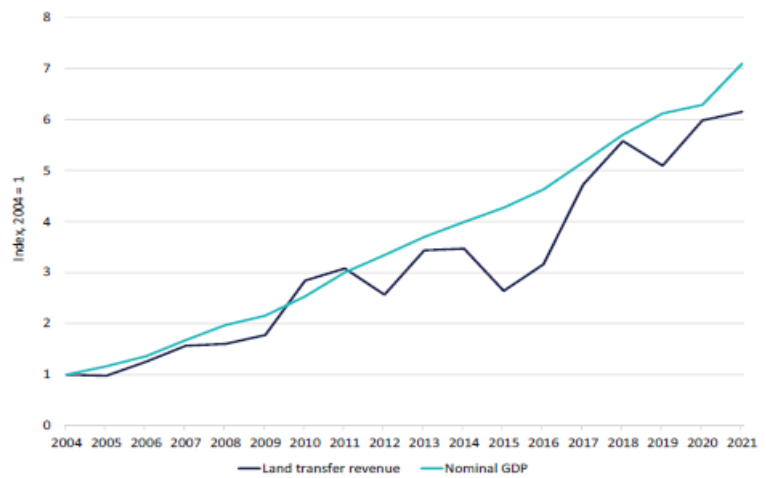
Further, Chinese mortgage rates have remained high by global standards, never falling below 4.7% and remaining well above 5% since 2018 for borrowers with one property, with considerably higher rates applying for purchasers of a second property.^[3] Chinese borrowers require large down-payments for houses, with first-home buyers requiring 30% down-payments and second- and third-home buyers needing more equity still.^[4]

There is no evidence of any meaningful glut of properties in China.

Has there been malinvestment? Yes.

Is there evidence of a nationwide excess of housing units? No.

Fig. 1: Chinese land transfer revenue versus nominal GDP, indexed



Source: citi

Fig. 2: Chinese house price growth versus nominal GDP, change year on year

	1998	1999	2000	2001	2002
Change in avg residential property price	0.9%	-0.1%	8.1%	6.0%	3.0%
Change in nominal GDP	7.3%	6.0%	9.8%	8.6%	10.3%

	2003	2004	2005	2006	2007
Change in avg residential property price	3.9%	15.2%	18.1%	4.1%	17.0%
Change in nominal GDP	13.7%	17.5%	15.6%	17.8%	23.7%

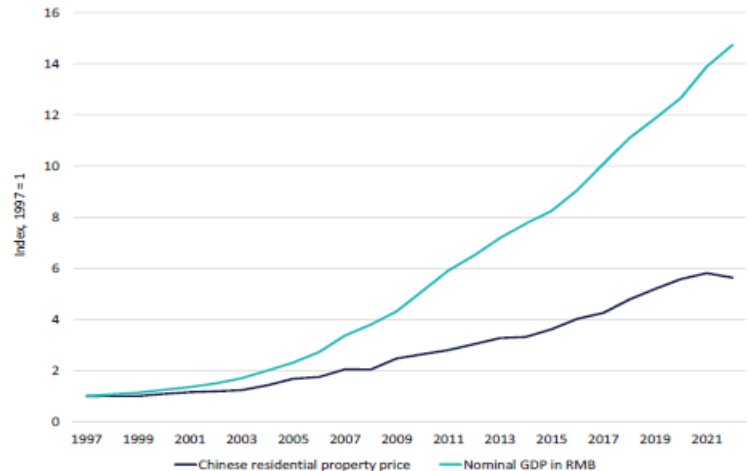
	2008	2009	2010	2011	2012
Change in avg residential property price	-0.3%	21.1%	6.7%	6.1%	8.4%
Change in nominal GDP	12.7%	13.7%	18.3%	15.7%	10.0%

	2013	2014	2015	2016	2017
Change in avg residential property price	7.7%	1.4%	9.1%	11.3%	5.7%
Change in nominal GDP	10.5%	7.8%	6.5%	9.9%	11.3%

	2018	2019	2020	2021	22 YTD
Change in avg residential property price	12.2%	8.7%	7.5%	4.2%	-3.1%
Change in nominal GDP	9.9%	7.0%	6.8%	9.7%	6.1%

Source: citi, FactSet Research Systems.

Fig. 3: Chinese house price growth versus nominal GDP, indexed



Source: citi, FactSet Research Systems.

What about China's 'ghost cities'?

But what of the tens of millions of empty apartments so frequently reported on by the Western media regarding China? Well, there are likely many millions of homes built in poorly conceived projects by property developers across China – this should be no surprise. Property developers build unsuccessful projects in every jurisdiction. There are around 400 to 500 million households in China in our estimation, so when we see breathless reporting of “50 million [empty homes](#) in China”, that would be roughly in line with the [10% unoccupied homes in Australia](#), for instance.

Prior to 1994, there was in effect, no private ownership of housing in China, and while housing was provided universally, residential area per capita in urban areas was a tiny 6.7 square metres (sqm) on average, generally with shared bathroom and kitchen facilities.^[5] Since that time, China has completed just over 17 billion square metres of housing,^[6] in the largest urbanisation in human history.

Let's break down that number.

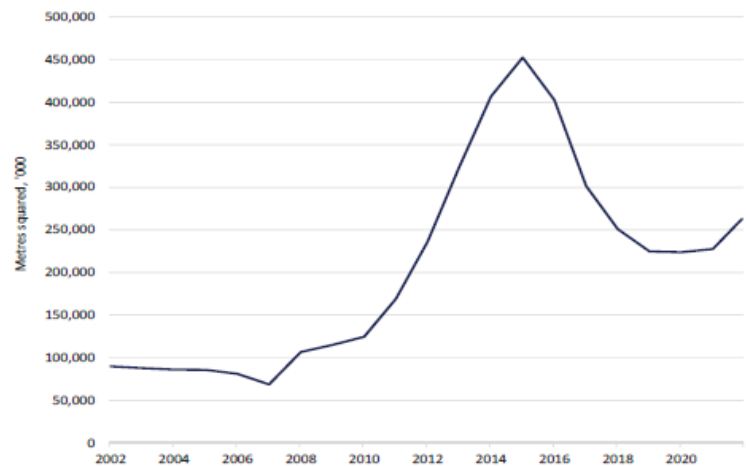
- There are [1.4 billion people](#) in China
- The [urbanisation rate is 62.5%](#)
- The average Chinese household [homes 2.6 people](#)
- Residential housing per capita in urban China is [39 sqm per person](#).

Multiplying this out gives us an average house size of approximately 100 sqm in urban China, and implies that of the 875 million people living in Chinese cities, only 438 million are living in a modern (post-1994) dwelling.

Put another way, if China is to house all of its current urban population in modern housing stock, it needs to double its entire modern housing build out, ignoring any replacement of existing housing.

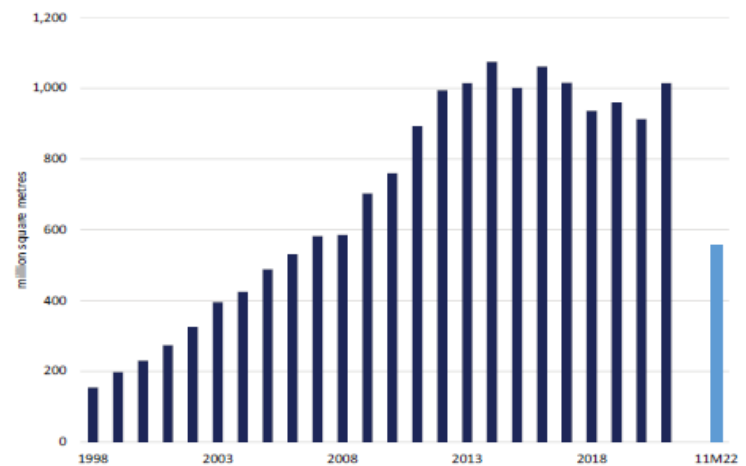
Further, China's urbanisation rate of 62.5% is low compared to other Asian countries (see Fig. 6). If we assume that China reaches an urbanisation rate of 80%, in line with other developed and middle-income Asian nations, approximately 200 million people will enter Chinese cities in the coming two decades or so, even assuming a gradually declining population.

Fig. 4: Vacant residential floor space waiting for sale



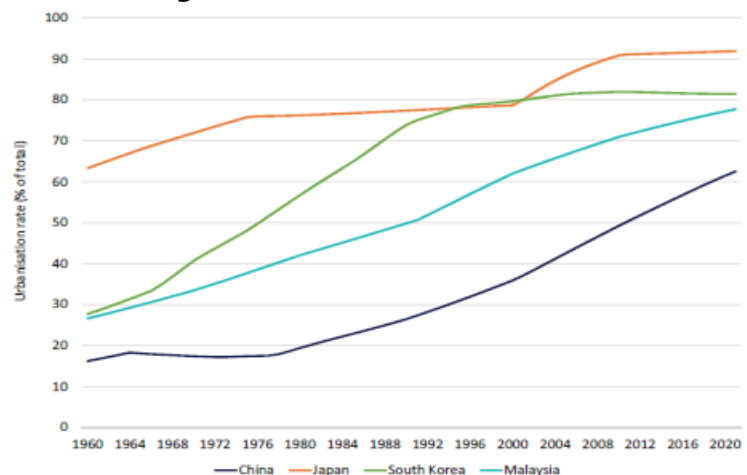
Source: Citi. Note 2022 data is to November.

Fig. 5: Chinese residential construction completions in metres squared



Source: citi.

Fig. 6: Urbanisation rates, China versus select Asian high- and middle-income nations



Source: World Bank,

<https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=CN>.

All told, China may require a further 25 years of current rates of residential construction to house its urban population in modern housing.

The sector needs ongoing reform

Since a series of reforms in the 1990s, culminating in the cessation of public renting of housing for workers in 1998, China has transformed from a country of workers who rented an abode from the government – this being a nominally Communist country after all – into a nation of homeowners. At 90%, China has among the highest rates of home ownership in the world.^[7] Therefore, the entire modern housing stock of China has been grafted onto a previously existing housing stock of low-quality shared accommodation. One of the most important issues in China is that the majority of the population still live in poor-quality, pre-1990s era housing – with massive ongoing construction required.

China needs ongoing reforms to allow for dignified rental conditions for workers in cities, not least [for migrant workers](#) (those without *hukou*). Further, China likely needed to slow the rate of home construction from the one billion square metres it was building in recent years (see completions data in Fig. 5) and has been at pains to [curb property speculation](#) for years.

An element of the Chinese residential property reform program has been the [direct control of new residential property prices](#), which we see as both heavy-handed and counterproductive. However, the 'three red lines' policy designed to [curb excessive financial leverage](#) among developers is sensible, albeit difficult to achieve without causing severe disruption to the broader industry, as has occurred. Of the thousands of property developers in China, only a handful meet the ['three red lines' rules](#) against excessive gearing. The Chinese Communist Party has [clearly stated](#) that it will support conservatively financed, larger property developers even as it strangles smaller, highly indebted operators.

We think this is reminiscent of the reforms of the insurance industry and the broad drive against overcapacity in heavy industries like steel, coal and aluminium: larger, better-run operators tend to be advantaged over smaller players as the state cleans up excess capacity and irresponsible practices in previously fast-growing industries.

So, when we observe a better-quality Chinese property developer like China Resources Land trading at mid-single-digit PEs, paying a 5% dividend yield, with a strong balance sheet, amid a regulatory push to eliminate its smaller, more indebted competitors, we see opportunity. This is the reverse of a bubble. This is an anti-bubble, where the crowd perceives 'un-investability' despite a long track record of success, data to suggest that property development will be required in China for decades to come, and a commitment by the CCP to employing existing property developers to meet that need.

None of this is without risk; anyone who believes there is no risk in owning an equity is sadly mistaken. But investment is about balancing risks. Large, lowly indebted Chinese property developers appear to offer an exceptional opportunity, in our view.

1. Source: FactSet Research Systems.

2. Source: <https://www.platinum.com.au/Investing-with-Us/Prices-Performance>. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited.

3. CLSA

4. CLSA

5. China People's Daily: <http://en.people.cn/n3/2018/1213/c90000-9528155.html>; Fang et al, "Demystifying the Chinese Housing Boom", NBER Macroeconomics Journal, vol 30, 2015, <https://www.journals.uchicago.edu/doi/full/10.1086/685953>

6. Source: citi, data to November 2022.

7. Huang et al, "Home ownership and the housing divide in China", <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7546956/>

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5 investment opportunities for a more positive 2023

Andrew Macken

As we begin 2023, we are at a much better starting point than a year ago.

While global economic growth may slow this year (essentially a lagging indicator), several positives have already emerged:

- China is re-opening, which means a much-needed boost to economic growth in the world’s second-largest economy.
- There is now compelling evidence that inflation has peaked and will continue to abate. Therefore, interest rates will likely need not remain high for very long at all, though there always remains the risk of policy mistakes.
- The harsh sell-off of 2022 has also left stock valuations at attractive levels. Many leading companies, such as **Microsoft**, **ServiceNow** and **Salesforce**, experienced significant stock price corrections in 2022 as growth expectations were downgraded. We view this as excessive and believe the long-term opportunity for these businesses remains as attractive as ever.

With this brighter picture, there is a high probability of further positive surprises this year.

It’s a good time to step back and share 5 ways investors can position their portfolios for a more optimistic market outlook for 2023.

1. Exposure to enterprise intelligent software leaders

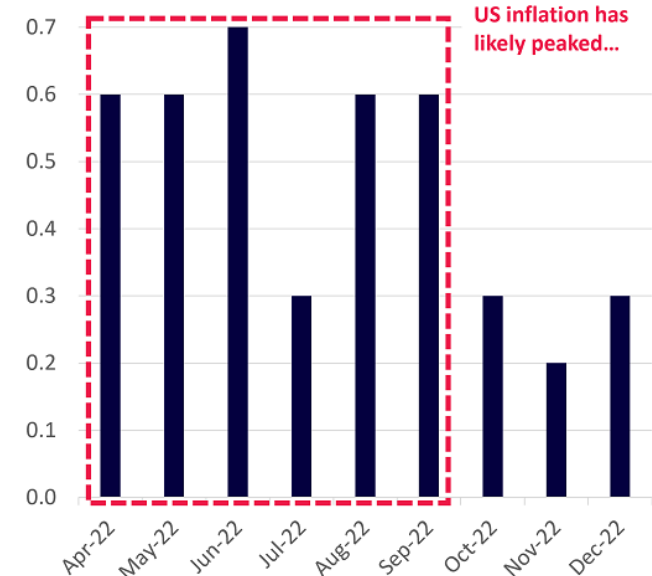
Intelligent software remains an enormous opportunity for enterprise customers all around the world. It allows them to better understand their data, extract rapid and actionable insights, and helps them make their internal business processes more efficient and valuable.

The leaders in this space, including **Microsoft**, **ServiceNow** and **Salesforce**, have several attributes that make them particularly attractive to Montaka:

- First, when customers spend on this software, they get a massive return. That points to long-term adoption, retention, and pricing power.
- Second, because these businesses have entrenched market positions and enterprise relationships, they effectively control the ‘distribution’ of new features and services to clients.

US Core Inflation (CPI, excluding food and energy)

Percent, month-on-month



Source: US Bureau of Labor Statistics; Montaka

- And thirdly, these businesses are built in software with superior economics – the marginal costs of production and distribution are essentially zero. Data advantages, in the form of network effects and emerging AI models, are also more likely to be stronger.

All of these businesses experienced significant stock price drawdowns in 2022 after growth expectations were downgraded. We do not dispute the slowing growth outlook over the next 6-12 months. But the market is implicitly embedding such weakness for a longer period. This pessimism is excessive because the long-term opportunity for these businesses remains as attractive as ever.

2. The long-term opportunity in cloud and compute

The dynamics described above are even more pronounced in cloud computing.

While early signs of slowing revenue growth sent stock prices of cloud leaders falling – including those of **Amazon, Microsoft, and Alphabet** – the long-term market opportunity in cloud has only increased and is materially higher than what is embedded in stock prices.

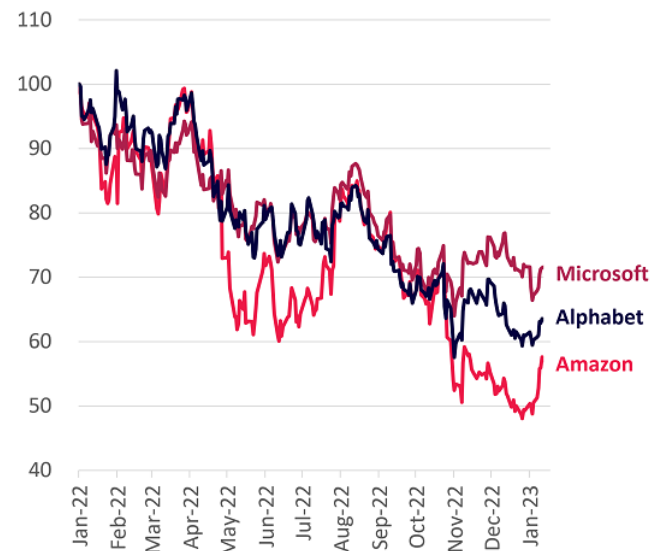
Demand for low-cost, scalable, and secure compute, storage and networking are growing rapidly and structurally. Businesses and governments of all sizes see value in adopting a cloud-based IT architecture.

But a look over the horizon suggests we may only be at the tip of the iceberg as the emergence of AI accelerates.

For example, the popularity of large-language models, such as ChatGPT, or text-to-image models such as DALL.E-2 or Midjourney, which go a long way toward automating creativity, is exploding. But here's the problem, the deployment of such large and compute-intensive AI models to consumers at scale is simply not possible today – the world does not have enough computer system resources. This is just one reason why we believe long-term demand for processing and storage will be significantly greater than forecasts embedded in stock prices today represent.

Stock Prices of Western Hyperscalers

Index: 100 = January 2022



Source: Bloomberg

3. Massive upside in online retail

In digital commerce and marketing, the economic slowdown is not only real, but it comes as a stark contrast to the strong pandemic period. Back then, fiscal stimulus policies boosted personal savings when online goods were the primary channel of consumption.

But zooming out and taking a longer-term view, we need only remember that 85% of the world's retail markets still remain offline today.

But this ratio between online and offline retail will eventually flip.

This is long-term positive for the world's great ecommerce platforms including **Amazon** in the West, **Alibaba** and **Tencent** in China, and **Reliance**-owned Jio Platforms in India. It is also positive for those businesses involved in related sectors of marketing and advertising (**Alphabet, Meta**), and payments (**Visa, Mastercard, Apple**).

4. The unrivalled leverage of alternative asset managers

We continue to see substantial long-term investment opportunity outside of technology as well.

The world's largest and most well-regarded alternative asset management platforms, including **Blackstone, KKR** and **The Carlyle Group**, continue to be the leading candidates to capture the incremental US\$6 trillion opportunity in private market assets over the current 5-year period.

The market is drastically overweighting the temporary impact of reduced inflows and lower asset valuations and underweighting the value of long-term opportunities.

The market is also likely underappreciating the attractive economics of these platforms. For every 'zero' that Blackstone adds to its AUM, for example, it also adds a 'zero' to its revenue without the need for any substantial incremental investment in its cost base. And with fees tied to asset values, if global GDP continues to increase long-term, then Blackstone essentially gets to grow its revenues and earnings for free – even absent new flows.

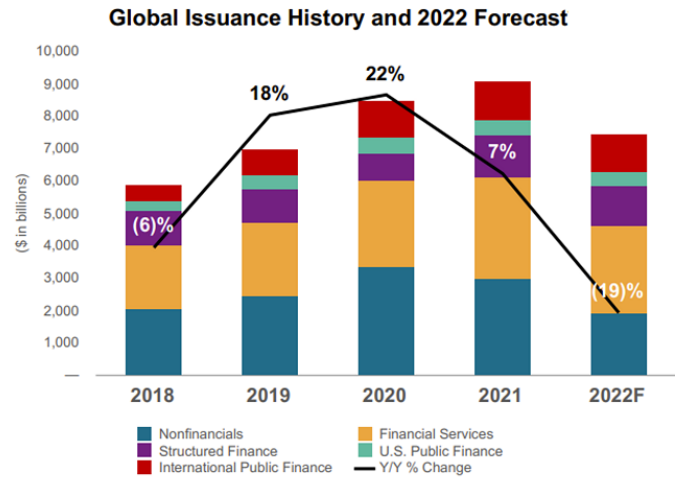
5. The structural growth of S&P Global

In a similar vein, and looking at a specific stock, the economics of **S&P Global** – a global leader in credit ratings, market data systems, and market indices – are also highly scalable. And its market opportunity is growing structurally with global GDP. Though its shares are currently depressed because fewer bonds are being issued in the current market. As is the case with all of Montaka's areas of focus, we see these conditions as temporary.

Way below intrinsic value

The market's myopia of 2022 has excessively depressed valuation multiples on cyclically depressed earnings. The result is that many of the world's most advantaged businesses can be acquired today at prices that are far below their intrinsic values.

Global bond issuance, temporarily depressed, set to rebound



Source: S&P Global; Montaka

Andrew Macken is the 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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Asset Class Gameboard shows all good things must end

Graham Hand

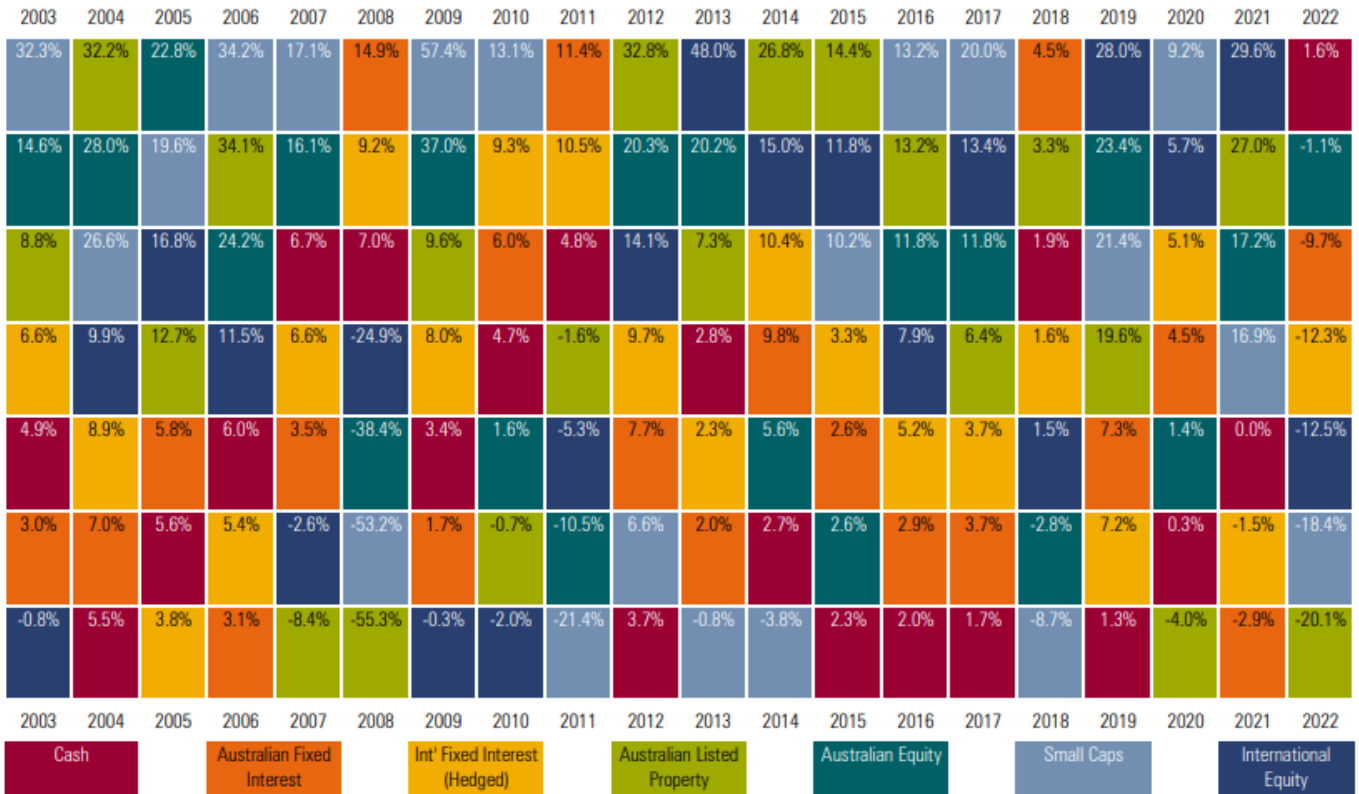
It's an annual highlight when Morningstar releases its Asset Class Gameboard, showing the winners and losers across seven major asset classes over the last 20 years. A glance at the chart immediately tells investors that the leading and lagging asset classes change most years, and it is almost impossible to pick which class will be the 2023 winner. At the start of 2022, how many experts would have nominated cash as the 2022 best performer?

What else does the Gameboard tell investors?

While the chart will not identify future winners, it gives some useful lessons over the years (the chart shows global returns hedged into Australian dollars):

- Good-to-bad-to-good is common. Many fund managers who shot the lights out in 2020 and 2021 became media darlings, regularly interviewed for their remarkable insights into the future, until the shocks of 2022 made them look like mere mortals. It's the same with asset classes, suggesting there's more to luck and randomness than analysts like to acknowledge.
- Defensive cash won in 2022 but it was at the bottom in four of the five years from 2015 to 2019, and near the bottom until 2021. Cash also did relatively well in 2007 and 2008 during the GFC, but interest rates were noticeably higher. These better returns (in nominal terms) will continue in future putting cash back into the asset allocation game.
- Australian listed property was bottom in 2020, near the top in 2021 and bottom again in 2022. Good luck picking those wild swings over only three years, suggesting the market's ability to pick the trends and value real estate cash flows leaves a lot to be desired. Does it also mean that super funds which do not regularly revalue their unlisted property assets are right not to react to market prices every month?

Annual Asset Class Returns - Calendar Year



Cash - RBA Bank accepted Bills 90 Days; Aust. Fixed Interest - Bloomberg Ausbond Composite 0-1 Yr TR AUD; Int. Fixed Interest (H) - iBloomberg Global Aggregate TR Hdg AUD; A-REITs - S&P/ASX 300 A-REIT TR; Global REITs (H) - FTSE EPRA Netvst Div REITS TR Hdg AUD; Aust. Equity - S&P/ASX 200 TR; Small Caps - S&P/ASX Small Ordinances TR; Int. Equity - MSCI World Ex Australia NR AUD © 2020 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or "class services" have been prepared by Morningstar Australasia Pty Ltd (ASX: M20) 615 544, AFSL 246882) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc. without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 054 523 523.

- Small caps topped 2020 as the pandemic favoured particular niches and growth companies, but they slipped rapidly down the chart in 2021 and 2022 as business models were tested, funding costs rose and some traditional consumer habits returned.
- There's a temptation to think returns from Australian and international equities should be approximately the same, as similar factors affect companies around the world. In fact, performance is often remarkably different, with 2022 as a stark example, especially as the currency impact of hedging into Australian dollars is in the numbers.
- 2022 was the first time only one asset class delivered positive returns (although Australian equities rose when dividends are included) and the lowest return from the winner. This is on the back of exceptionally good returns in 2021.
- Bond losses, both local and global, were the worse in 2022 over this entire series.

The average per annum performance of each asset class over this sample as in the table below, listed from highest to lowest. As with most long-term series, equities win.

Asset class returns per annum 2003-2022	Worst	Average	Best
Australian equity	-38.40%	10.29%	37.00%
Small caps	-21.40%	9.58%	57.40%
International equity	-24.90%	8.24%	48.00%
Australian listed property	-55.30%	7.91%	34.10%
International fixed interest (hedged)	-12.30%	5.15%	10.50%
Australian fixed interest	-9.70%	4.44%	14.90%
Cash	0.00%	3.45%	7.00%

The overarching lesson for most investors looking for consistent returns and balanced risk is that diversification will reduce heavy annual losses that come from concentration, although the best long-term returns are derived from exposure to equities if the risk is not outside the comfort zone.

Any comments on other information in the charts are welcome.

Graham Hand is Editor-at-Large for Firstlinks. This article is general information and does not consider the circumstances of any other investor.

Disclaimer

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