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Planning Partners

Prosperitas

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Prosperitas: Latin for **prosperity & good fortune**

O Captain! My Captain!

As our parliament, seemingly choking on an oversupply of dual citizens, moves lawfully (or unlawfully) to decide (or not decide) on same sex marriage by way of a national plebiscite, we are left with some burning questions: Where is the next great Australian politician? And where do our kids look for genuine leadership?

The person who points the way forward and then confidently strides along the path is needed. This rare individual knows that which is common on both sides of politics is far greater than that which divides us. Presently, these common values are too often dismissed and perhaps conveniently overlooked while prodding for weakness across the political divide assumes greater importance.

And what of the economic uncertainty that this global absence of political leadership is creating?

Where does this all leave the equity, property and fixed interest markets as a place to create wealth or at the very least save for a secure retirement? We are all navigating the unpredictable outcomes of a rudderless government together. When we combine this with gradually tightening monetary markets in western economies, what we do know for certain is that recent trend toward index investing is becoming at the very least fraught.

Promotors of Index Funds (because we can't really call them managers now can we?) revel in the high tide that will float all boats – as they have done since the GFC. We are well within a political and economic climate both locally and internationally where active fund managers earn their reputations and research houses are also at their most accountable.

The lighter side of life is explored yet again on the back page of this publication including a new trivia section, the return of the Garden Gnome with some valuable summer gardening tips for us in the Garden Clippings, and a topical movie review.

We hope that you enjoy *Prosperitas* and we are looking forward to seeing each of you when you next swing in to Camberwell

Martin R McIntosh
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Amazon and Active Investing

It is 20 years since the stock market float of Amazon, a remarkable story of how an online bookseller revolutionised retail. In two decades its sales have grown from $16m to $136bn. The company is now valued at nearly twice as much as Walmart, the world's largest bricks and mortar retailer. Almost single-handedly, Amazon has changed the way the world shops.

Another facet of the Amazon story is the case that its stellar stock market performance over the past 20 years makes for active investment. Active management, that is to say seeking out tomorrow's winners rather than passively tracking a stock market index, is deeply out of fashion today, ineffective and expensive according to its critics. Amazon is an extreme example of why the shrill chorus defending passive investing is wrong.

Amazon's shares have delivered a compound annual return of nearly 40pc since 1997, turning a $100 investment into $64,000.

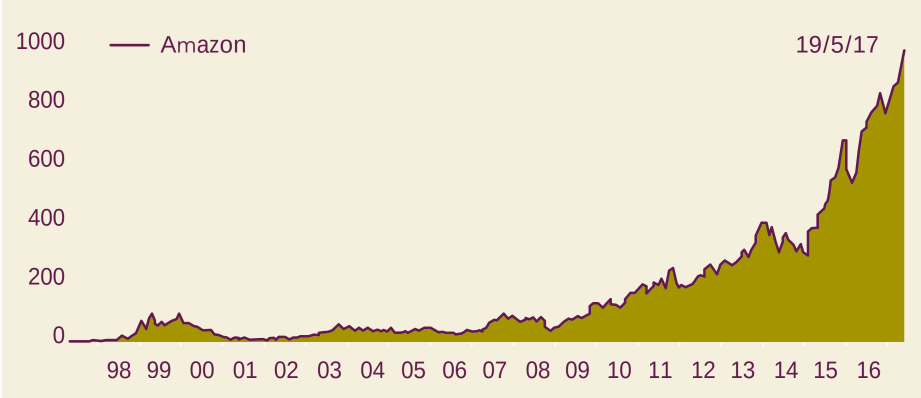
It would have required fortitude to stick with Amazon in the early days. Having come to the market at $18, the shares hit $113 at the height of the dot.com bubble in December 1999 but fell to a low of $5.51 less than two years later as the internet craze imploded.

So what is the case for active investment that Amazon makes? At its most basic, it is an illustration of the fact that a stock market index is an average made up of outperformers and laggards, winners and losers. The S&P 500 index has risen by 300% over the past 20 years. That's not bad but it is a fraction of the 63,000% delivered by Amazon.

There is more to this than simple arithmetic. One of the lessons of Amazon's stellar success has been how technological disruption has fuelled the monopolistic tendencies of the capitalist system, and Amazon, Google, and Facebook are just the latest manifestations of this fact.

So as the business world becomes ever more concentrated, the importance of picking winners and sticking with them increases. An investor who invests in every company in an index will naturally be exposed to the next Amazon but the benefit will be massively diluted by the many other businesses whose lunch is being eaten by each sector's winners.

The second lesson from the Amazon story is the acceleration in the business cycle thanks to the rapacious success of



Source: Thomson Reuters Datastream

a handful of companies. A generation ago a business might, on average, expect to be around for 40 years. Today 15 years is more like it. This has great significance for investors as it means that by the time a company has grown enough to list its shares it will, in too many cases, be heading into its twilight years. It is exaggerating to say that the stock market is where growth companies are put out to grass but it's fair to say that markets have a good sprinkling of yesterday's not tomorrow's winners. This is all the more reason not to adopt a scatter-gun approach to investing.

A third reason to believe that now is just the wrong time to be jumping on the passive bandwagon is what has driven the market as a whole over the past eight years or so since the financial crisis. Thanks to the extraordinary measures taken to rescue the world from that disaster, the past few years have been a remarkably favourable time to be a stock market investor. Share prices have been re-rated higher, while the shift in returns from labour to capital has boosted corporate profits. Both of those trends may now have played out.

If that leads to one of the stock market's periodic (and commonplace) phases of sideways drift, then the case for passive investing will be further weakened. Investors may be rushing headlong into an approach that is doomed to disappoint. Times like these require the hard work of finding tomorrow's winners not just sit back and let the market do the heavy lifting for you.

Research suggests that sideways markets can provide a healthy backdrop for stock-pickers. During four periods of becalmed markets in Asia, Japan, the US and Britain, a surprisingly high proportion of companies performed exceptionally well. In the US, 93 of the S&P's 500 constituents achieved more than 75% price growth, while in Britain 178 of the FTSE All Share's 605 members did so.

It is fashionable to believe today that passive investing has fatally wounded traditional stock-picking. Amazon's 20 years on the stock market is proof that active investing remains fit and well.

The question of how much superannuation is enough to fund an individual's lifestyle in retirement is one which is being asked more and more these days (especially following the introduction of a stricter Age Pension assets test). Accordingly, there are a number of materials (such as the table shown) freely available and which have been designed to provide a guidance on the required 'magic number':

ETFs Risk: Exchange Traded Funds Far From Risk-free

There has been an extraordinary rise in the number of exchange traded funds (ETFs) available to the Australian investor over the past 10 years and their influence on the Australian market has been growing.

According to the ASX the amount of money invested in ETFs is estimated at $25 billion, a 15-fold increase from 10 years ago. ETFs in Australia account for, on average, about 1 per cent of all daily trades[1].

The rise of ETFs has been driven in part by a growing belief that "asset allocation" rather than "asset selection" is the key to achieving long-term investing success.

Companies such as Vanguard, State Street and Barclays have successfully highlighted the benefits of passive investing versus investing via an active manager, who may have a mixed history of beating the market. This has fuelled an often-incorrect assertion that ETFs are lower risk than funds that proactively manage portfolios and focus on investing in great businesses.

With their popularity and influence on the market rising both domestically and overseas, one needs to interrogate other risks ETFs pose to ETF investors and the broader market. The following are structural risks that stand to impact investors significantly, should they eventuate.

1. The next 'big' correction

What will be the role and influence of ETFs in a severe and rapid market correction? While the global financial crisis was only 10 years ago, the size and influence of the global ETF market was not as big as it is today.

Domestically, the largest ETFs tend to be share index funds, or those based on indices such as the S&P/ASX200. And while the ASX200 still only has 200 companies in it, the amount of money that has gone into these ETFs has blown out significantly. Therefore, with all the money corralled into the same number of stocks, what will happen when the market turns on itself? More importantly, how will ETFs contribute to the panic and sell off?

2. Run on frozen funds

When an investor sells their ETF unit on the market, they are effectively telling the ETF provider to sell down some of their holding to meet a commitment. While another investor may buy it from them, the ETF provider is also required to be the market maker and a counterparty to the transaction at a price relative to the fund's net asset value (NAV).

But how will an ETF provider act should a swift and aggressive market correction occur? As the ASX reminds us, ETF providers are under no obligation to make the market at all times. Therefore, where there is extreme stress and volatility, funds could be frozen by ETF providers. This risk is heightened for ETFs that invest in less liquid assets.

3. Inefficient pricing

On May 6, 2010 the Dow Jones suffered a 1000 point (or 9 per cent) drop in 20 minutes as 2 billion trades were executed.

According to the Securities and Exchange Commission, 200,000 trades across 300 securities were executed at prices 60 per cent lower than they were moments earlier. The regulators subsequently reversed many of these trades. ETFs accounted for a disproportionate 68 per cent of these trades.

Then on August 24, 2015, with 471 different ETFs and stocks in a circuit-breaker lock down and with only half of the S&P500 traded at the opening, the pricing mechanism for many ETFs simply broke[2] within the first 15 minutes of trade. In both scenarios the market eventually returned to normal. However, these risks remain, particularly as funds under administration in ETFs continue to grow.

Sometimes, holding on to great businesses and making your own decisions can be a simpler process to stomach.

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1 https://www.rba.gov.au/publications/bulletin/2017/jun/pdf/bu-0617-6-the-australian-exchange-traded-funds-market.pdf. Retrieved 8 September 2017.
2 https://www.cnbc.com/2015/09/25/what-happened-during-the-aug-24-flash-crash.html. Retrieved 8 September 2017.

How Much Superannuation is Enough?

Fund until age	Super balance at retirement (Assuming age 65)		
	$250,000	**$600,000**	**$1,000,000**
70	$1,000 per week	$2,560 per week	$4,200 per week
75	$600 per week	$1,450 per week	$2,400 per week
80	$440 per week	$1,090 per week	$1,800 per week
85	$370 per week	$900 per week	$1,500 per week

The table shows the longevity (assuming an annual yield of 5% on the funds invested) of various superannuation balances based on a number of assumed drawdowns and without any additional lump sum withdrawals on capital. For example, assuming a starting balance of $250,000 (at age 65) and a weekly drawdown of $440 from the account, the table indicates that the funds will be exhausted within next 15 years.

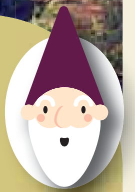
Whilst the information provided in the table is somewhat useful, it should not be used as a prescriptive tool as everyone is different and there is no 'one-size-fits-all' answer. The amount of funds sufficient to deliver a 'comfortable' retirement will depend on an individual's specific needs and spending habits. In this regard, the following factors provide a good starting point:

- Required annual lifestyle expenditure level;
- Lump sum requirements (e.g. home renovations, holidays, car purchase);
- Medical expenses.

As everyone's needs differ, Planning Partners use cashflow modelling to project your financial position over a relevant timeframe (e.g. 10 years) based on a number of assumptions to determine an appropriate level of funding required.

We welcome you to contact our office to discuss your situation in greater depth.

Garden Clippings



It doesn't presently feel like summer is just around the corner but our gardens will shrivel like a prune once the harsh sun takes hold.

A couple of tips to help you prepare and battle through our toughest months as a gardener;

- If any of your plants are looking a little wobbly in spring, they almost certainly will not thrive in summer. Take a pre-emptive strike and remove (and replace) the sorry excuse for a plant, re-direct your water and energy to longer term prospects.
- Check watering systems and hoses and upgrade as necessary.
- Weed beds and then add wetting agents to the soil. You know that you will need them so get them in nice and early.
- Pots may require daily watering, use the fingertip test.
- Watch for citrus bugs and white fly attacking shoots and leaves. Hand remove where possible.
- Keep your mozzie repellent out near the hose so that you can enjoy watering during the evenings rather than barely tolerating it.

May you enjoy your garden throughout the long summer evenings ahead.

GG

That's a Fact, Jack!

- The Mona Lisa does not have any eyebrows or eyelashes.
- The only member of ZZ Top to not have a beard is…Frank Beard.
- The author Joseph Conrad died leaving an unfinished novel called Suspense.
- The shape of a Pringle chip is hyperbolic paraboloid.
- Dr Seuss is actually pronounced 'Dr Soyce'.
- Strawberries, raspberries and blackberries are not actually berries. But bananas are.
- 'Percussive maintenance' is the term for hitting something repeatedly until it works.
- Despite popular opinion, 'orange' and 'purple' do have rhyming words, being 'sporange' and 'curple'.
- After Outkast sang "Shake it like a Polaroid picture" Polaroid released a statement advising "Shaking can actually damage the image".
- Albert Einstein's last words were spoken in German to a nurse who didn't speak German; and so they were lost forever.
- Most toilets flush in E Flat.
- There are no bridges over the Amazon River.

The Movie Buff

Buff Rating:
Still Love it but still a Worry

Dr Strangelove (Or How I Learned to Stop Worrying and Love the Bomb)

Thanks to a couple of world leaders MAD, mutually assured destruction, is back in the news. Which is not good in itself but it is a good time to view (or rediscover) maybe the greatest satires of all time, Stanley Kubrick's 1964 Dr Strangelove. The Oxford Dictionary defines 'satire' as "*the use of humour, irony, exaggeration, or ridicule to expose and criticize people's stupidity or vices*". Taken in view of the situation in North Korea, the humour and exposé of Trump and Jung-Un's stupidity and vices remain; whether it is an exaggeration is the worrying part.

After romantic plays over the credits (a suggestive non-sequitur of a refuelling plane), the story revolves around a group of airplanes receiving orders to bomb their Russian targets. This is at the behest of rogue Brigadier General Jack D. Ripper (Sterling Hayden), who believes the Russians are responsible for the flouridation of American water and polluting their "precious bodily fluids". We follow one plane's journey into Russia, the U.S. President's attempt to cancel the mission, and Ripper's ill-fated defense of his base. And hilarity ensues.

A plot summary really doesn't sell Dr. Strangelove, as the film is primarily a satire of cold war paranoia. Extraordinary, pertinent, funny, and biting. Peter Sellers gives three excellent performance, and George C. Scott is extraordinary in a gloriously over the top portrayal of General Turgidson.

The film is saturated with a biting wit that peaks with perhaps the most exquisite use of irony when Sellers, as the US President, chides his Generals: "Gentlemen, you can't fight in here! This is the War Room."

It may have been made in 1964, but it just feels like it is as urgent as ever. Most of what is being discussed and roasted is still alarmingly relevant in today's world. It's a genuine classic, and one of the best comedies ever made. It makes you laugh but also makes you terrified, as it is maybe a little too close to our reality today.

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