SIAA monthly

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The super wars are alive and well

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Stockbrokers and Investment Advisers Association Limited ABN 91 089 767 706

Level 2, 74 Pitt Street, Sydney NSW 2000

Email: info@stockbrokers.org.au

Tel: +61 2 8080 3200

www.stockbrokers.org.au

Advertising

Silvana Eccles, Education and Operations Manager

Email: silvana.eccles@stockbrokers.org.au

Tel: 02 8080 3204

Light at the end of the tunnel

By Fidelity International

The economists' verdict is in: 2023 will be a tough year as higher prices and higher interest rates drive many economies into recession. But are they too gloomy? Fidelity's annual Analyst Survey, polling 152 experts who cover real businesses on the ground, paints a more hopeful picture.

The survey, which we have been running for over a decade, consults a range of fixed income, equity, private credit, and cross asset experts who cover dozens of sub-sectors of the economy. It shows 60 per cent of analysts believe their sectors are already in a slowdown, a shallow recession or worse. Look slightly further out, however, and just over half of those analysts expect the business cycle will have turned positive again by the end of 2023. Only a handful expect to be deep in recession.

That may run contrary to the prevailing mood after a year in which the shocks delivered by Russia's invasion of Ukraine have run parallel to the deflating of a decade of booming stock markets and cheap money. But from a wider perspective, it is in line with economic logic: as companies reach the bottom of the business cycle, they begin to think about the opportunities to come.

Hope in China's reopening

On the ground, how is this likely to unfold? For one thing, cost pressures, the results suggest, will peak for most sectors and regions in the first half of the year. China - assuming its reopening gamble works - will reboot, and materials, utilities and technology companies will shift back into investment mode, in part driven by the environmental transition.

Beyond the main annual survey, we also ask our analysts a smaller set of questions every month. The most recent monthly responses are a further source of optimism. The management sentiment reading, while still negative, appears to have broken a two-year downward trend, posting four straight months of improvement to January, with those analysts who cover China reporting positive sentiment among managers in both December and January.

Be prepared

Although funding costs are a worry, balance sheets look less stretched than previously. Debt is expected to grow only in two sectors: utilities, where companies are investing heavily in renewable power, and in consumer sectors already struggling with the aftermath of two years of Covid restrictions. Banks should see revenues boosted by the rise in interest rates, and others in the financial sector expect 2023 to deliver - at a minimum - an improvement on the stock and bond market slides of last year.

Turning to the bottom line, 74 per cent of analysts say their companies' CEOs expect earnings to grow over the next 12 months. Anecdotally, we know inflation is playing a role, as one consumer staples analyst explains: "Food retailers benefit from inflation as they pass on supplier price increases."

Analysts, however, also highlight other sources of expected earnings growth and the picture is illuminating: the dominant answer from those covering utilities, materials, information technology, and healthcare is that end-demand will improve.

The bottom-up view of the polycrisis

But in the near term, the pain to come is evident in the survey's wide range of data points. Analysts expect a rise in debt defaults over the next 12 months. Recent growth in shareholder pay-outs will fade, while mergers & acquisitions (M&A) activity will slow, with 73 per cent of analysts saying the deals they do expect will be smaller, bolt-on acquisitions. Around three-quarters (74 per cent) say that, for now, the biggest focus for boards is holding down costs and shoring up revenues, rather than investing for growth or delivering shareholder returns.

Geopolitical concerns, brought sharply into focus by the Russian invasion, are also growing, with the survey's

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> By sector, the hardest-pressed businesses over the next year will be those dependent on consumer spending.

negative net reading for this topic almost doubling. Companies remain focussed on the environmental, social and governance (ESG) challenges ahead, but there is little improvement in our indicators on net zero, biodiversity and other ecological issues.

Fear for the consumer

By sector, the hardest-pressed businesses over the next year will be those dependent on consumer spending. Many companies may have partially insulated themselves from the immediate effects of rising US and European interest rates but households are already suffering. The survey shows both that businesses targeting the consumer will have the least power to raise prices over the next year and that their balance sheets are the most stretched.

Yet, as so often in the past two decades, some salvation may lie in the pace of growth in China. Answering the survey as Beijing abandoned its zero-Covid policy in December, only 8 per cent of our analysts predicted even a shallow recession in the world’s second largest economy, judging that the reopening, together with the room authorities have to support growth with policy, will succeed in rebooting growth.

It will, of course, not be a smooth ride, and those who expect a challenging year in 2023 will find plenty in our survey to support that view. Overall, however, the picture emerging is not one of perpetual gloom but also of brighter times to come.

This is an abridged version of the full report.

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Enhance income with covered call ETFs

Wednesday 8 March
1.00 to 2.00pm AEDT

After a tumultuous 2022, fund managers are united in their consensus that 2023 will deliver another volatile year. For income focused investors, covered calls can provide an alternative solution to high yielding stocks and bonds. Join Blair Hannon and Andrew Duncan from Global X as they explore how covered call strategies can help manage risk and generate income.

Professional Standards CPD:
1.0 Technical competence

ASIC RG146: 1.00
Generic knowledge


Blair Hannon

Personal v General Advice

Wednesday 22 March
1.00 to 2.00pm AEDT

Paul Derham of Holley Nethercote returns to provide a refresher on what constitutes general advice on the one hand and personal advice on the other. What are the red flags an advisor must look out for to ensure they are not straying into the territory of personal advice? What impact will the Quality of Advice have on advice? Join Paul Derham for this update on this important topic.

Professional standards CPD: 1.0
Professionalism and ethics

ASIC RG146: 1.0
Generic Knowledge


Paul Derham

Is it time to buy bonds in 2023 after the worst year on record in 2022?

Wednesday 12 April
1.00 to 2.00pm AET

2022 was the year of the great regime change or inflection point as the search for yield died because lofty risk-free interest rates on both cash and high-grade bonds are plentiful. Investors are having to reposition in 2023 and accept that markets are still in thrall to shifts in the macro environment driven by central banks. Hear why Christopher Joye from Coloabah Capital believes 2023 is the year for bonds.

Professional standards CPD:
1.0 Technical competence

ASIC RG146: 1.0
Generic Knowledge


Christopher Joye

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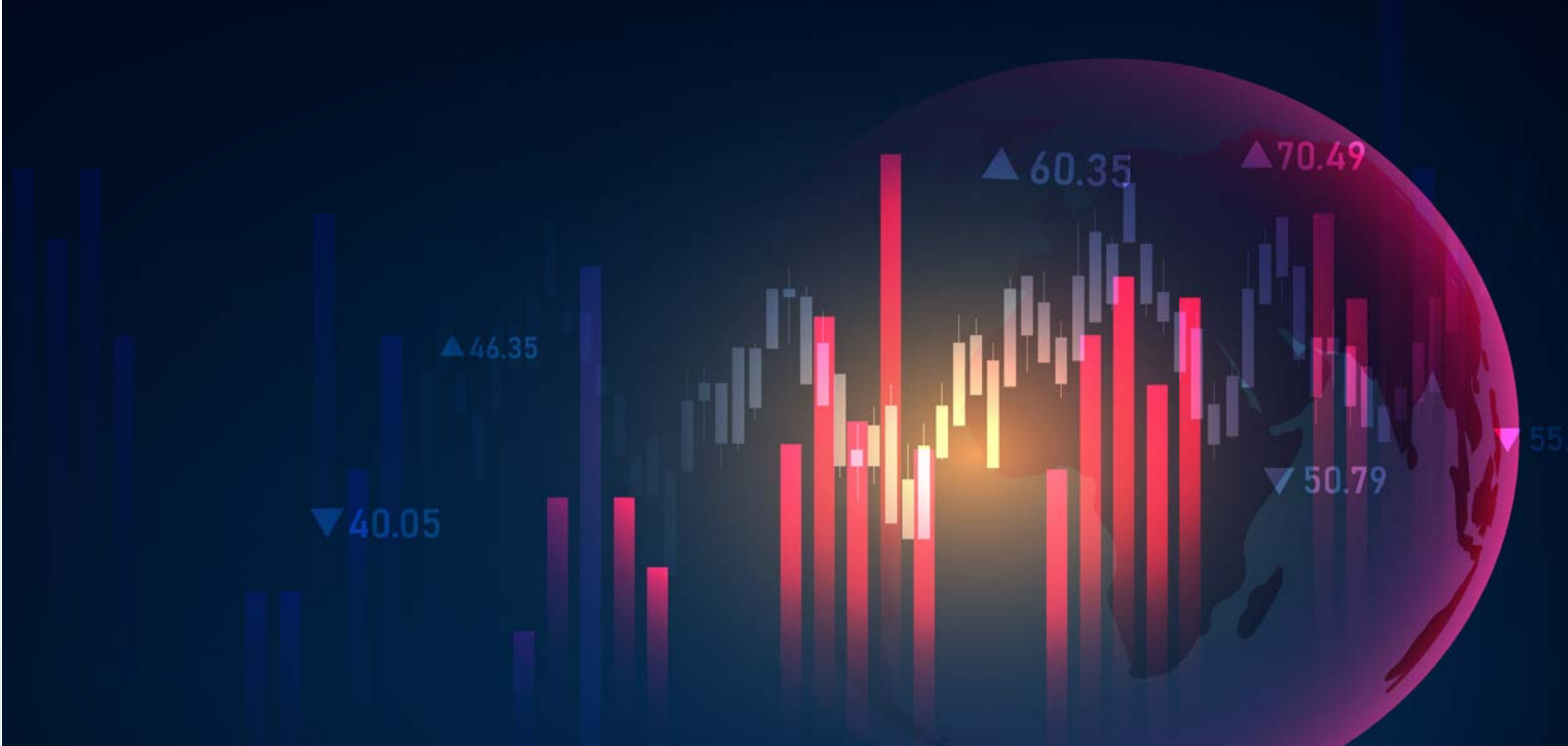


Benefits of
INTERNATIONAL INVESTING

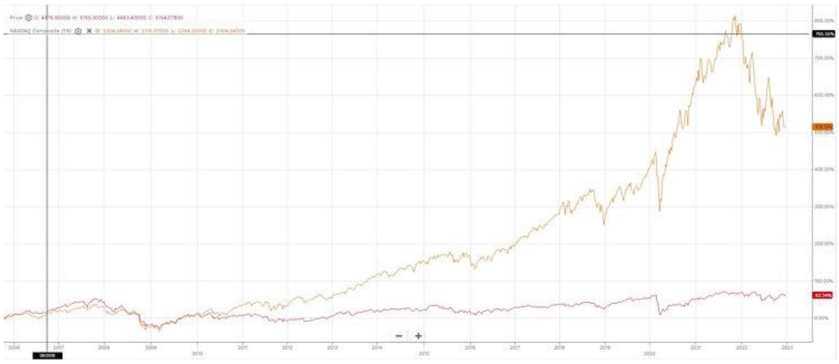
By Clay Carter, Head of Equity and Research, HALO Technologies

International investing provides investors with many benefits, such as diversification, access to different technologies, and potentially higher returns. Despite this opportunity, investors tend to exhibit a "home bias" and have maintained an allocation to their home nation that is potentially more than warranted. While not one specific geographical security allocation suits all investors, it is essential to remain open and examine the possibilities that international investing can achieve.

One primary motivation for international investing is the diversification benefits it can provide to a portfolio. When looking domestically, securities are exposed and driven by the economic and market forces of the investors' domiciled market. Therefore, when you increase international exposure, your returns are driven by a more comprehensive array of economic and market forces, which then have the potential to generate returns that vary compared to solely domestic exposure. The graphic to the right juxtaposes the difference between the ASX 200 (red line) and the Nasdaq composite (orange line) since 2006. Incorporating a U.S. allocation (in this case) would have provided investors with exposure to the market forces driving the Nasdaq, subsequently altering their investment returns.

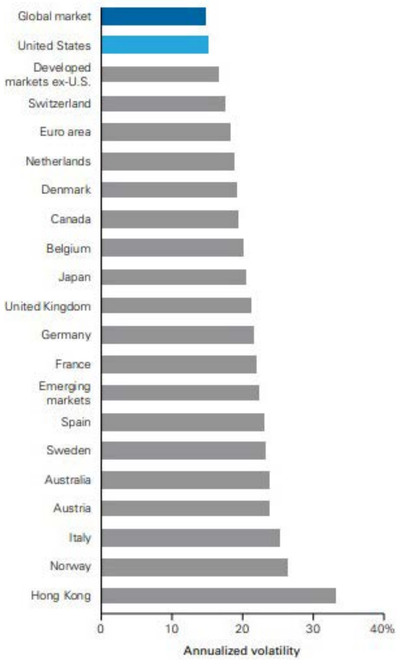
Additionally, international investing can potentially generate lower volatility than a sole allocation to a single geographical location. This is due to the typically low correlation between geographies.

ASX 200 vs. Nasdaq Composite historic total returns – *Source: Factset*



While international investing provides diversification benefits, it also allows investors access to a more comprehensive opportunity set. Utilising data from 2020, the large developed markets accounted for 58.3% (the

Volatility of returns by market – *Source: Vanguard*



U.S.), 8.6% (Euro area), 3.5% (the United Kingdom), 2.7% (Canada), and 1.8% (Australia). Solely investing in one region excludes a large percentage of the remaining global market and limits opportunities. An example of this is illustrated by comparing the Australian market, primarily composed of banks, retail, resource and energy companies, to the U.S. market. The U.S. market is home to some of the most innovative companies, such as Tesla and Apple. Failing to incorporate exposure to this market removes the opportunity to benefit from their innovation and returns.

An often-overlooked element of international investing is the potential additional return generation from currency appreciation. When the value of your overseas investment appreciates due to positive return, and the currency appreciates against your home currency, you will generate extra returns upon selling the security.

Three international companies we believe are long-term structural winners are LVMH Moet Hennessy Louis Vuitton SE (contained within 'Luxury Goods' Vue), Apple (contained within 'Warren Buffet Top 10' Vue), and Tesla (contained within 'Car of the Future' Vue).

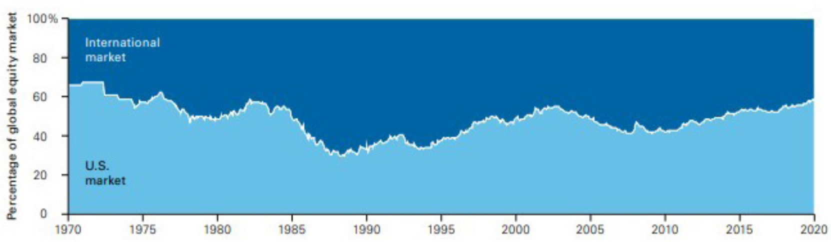
LVMH (EPA: MC)

The LVMH Group was formed through the merger of Moet Hennessy and Louis Vuitton in 1987. Today, the Group has established a market-leading position through its unique portfolio of 76 Maisons, which operate within six groups. The six groups within LVMH are Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewellery, Selective Retailing, and Other activities. In each of the respective groups, LVMH has established a highly competitive or leading market position. LVMH remains one of the most dominant players within the luxury goods space. This can be characterised by its scale, strong presence in every industry segment, and ability to allocate capital efficiently within the business. Within luxury goods, being a part of a multi-brand approach provides benefits such as shared learning and incremental growth. It also allows a greater ability to market and expand your products. Louis Vuitton has one of the largest marketing spends within the space allowing it to continuously promote its brands and attract new customers within its ecosystem.

Apple (NASDAQ: AAPL)

Apple designs, manufactures, and markets consumer technology products, including smartphones, tablets, personal computers, wearable devices and entertainment devices. The Group generates robust margins, has immense brand loyalty and continues to innovate its products year after year. While supply problems in China have caused headwinds, we believe that these are likely to be transitory and will resolve themselves in the near future. Looking forward, the Group has the capability and financial resources to continue expanding its product lines and monetising its consumer base through new offerings and services.

Historical mix of global equity market capitalisation – *Vanguard*



Tesla (NASDAQ: TSLA)

Tesla develops, manufactures and sells high-performance, fully electric vehicles and energy generation and storage systems. The Group emphasises performance, attractive styling and the safety of its users and workforce in the design and manufacture of its products. It is also attempting to develop full self-driving technology for improved safety. While recent negative headlines have surrounded the Group (primarily due to Elon Musk purchasing Twitter), we believe it will remain a market leader in the longer term. In the near term, Tesla continues to execute its growth trajectory by ramping production in its Giga-Factories, expanding its product offering (the first deliveries of the Tesla Semi were in December 2022), and being eligible for the new EV tax credits. Additionally, Dojo, the Tesla AI supercomputer, continues to learn from every mile a Tesla drives on the road in the pursuit of achieving full autonomous self-driving.

While international investing has benefits, it's important to remember that it carries its own set of risks, such as currency, political, and economic risks. It's essential to carefully consider these risks and your own investment goals and risk tolerance before making any investment decisions.

HALO Professional assists advisers research investment in global markets. You can contact the team at www.halo-technologies.com/adviser-request-a-call.

The cornerstone of our cash flow solution

By Olivia McArdle, Head of Payments and Deposits, Macquarie Bank

The best financial advice strategies can fall short without clear visibility of client cash flow. That's why CHG Integrated Wealth runs a Cash Hub for every client – keeping them accountable and on track towards their goals.

Located on the NSW-Queensland border at Tweed Heads, CHG Integrated Wealth has evolved from an accounting practice to a holistic finance, wealth advice and accounting business. With a clear understanding of its ideal clients – busy business owners, retirees, and high earners – Head of Wealth Lisa Kirk knew full visibility of cash flow would be crucial.

So CHG uses the power of Macquarie Bank's Cash Management Account (CMA) as what it calls its Cash Hub for clients.

"All each client's cash inflows and outflows pass through that account. That allows us to quickly and painlessly measure cash flow – and what gets measured gets managed," she says.

CHG sets up automated 'drops' that go from each client's Cash Hub towards the best use of that cash to meet their goals. That could be a home loan offset account, a Macquarie Bank term deposit or CMA Accelerator account, or an investment account. A set amount is also allocated into an everyday transaction account for their everyday living expenses.

"From a client's perspective, the Cash Hub just sits there in the background," explains CHG Financial Planner Saul Muscardin. "The balance that we hold in it at any one time isn't high, because we're always allocating cash somewhere productive. We do the hard work of worrying about cash flow, and they just get on with their life."

Real-time cash optimisation

"Cash management shouldn't be hard," explains Olivia McArdle, Head of Payments and Deposits for Macquarie Bank. "Macquarie's cash ecosystem streamlines the experience for the client and the adviser."

She describes it as a hub-and-spoke model. "The CMA is a cash hub at the centre, with direct links to a CMA Accelerator Account for excess cash on call at a higher rate, and term deposits for fixed returns if clients want to lock away funds for a set period – maybe for a tax bill or saving a deposit for an investment property."

Transactions between accounts are real time and unlimited, with no daily limits and no fees. And with real time data integrations to over 45 platforms and push notification authorisation options for clients, it's easy to set up accounts and make cash transfers on behalf of clients if they prefer.

"Advisers can set up a quite sophisticated cash maximisation strategy, while also having more time to focus on more complex investment options," says Olivia.

Turn advice into action

> "Advisers can set up a quite sophisticated cash maximisation strategy, while also having more time to focus on more complex investment options," says Olivia.

Saul describes the benefits to CHG's business as "gold".

First, it takes any guesswork (and data entry time) out of managing expenses. "The numbers don't lie, and the Cash Hub automates data feeds into XPlan," he explains. Separating savings from everyday banking, with another set of eyes on transactions, also keeps clients accountable for their spending decisions.

CHG can also be more proactive with advice, which clients value.

"We've got eyes on each clients' Cash Hub every single day," says Saul. "We know what they're building towards, so we can call and say, 'I just noticed you've had a pay rise, let's increase your super or pay down your debt quicker.' We don't have to wait for an annual review meeting."

Best of all, it bridges the gap between advice and implementation.

"If we leave cash transfers in the client's hands, we can't be confident it will get done," says Lisa. "But with Macquarie's CMA, we can initiate cash transfers during a meeting, and digital authorisation is simple: clients just get a notification on their phone to approve the payment," says Lisa. "It's just so easy to implement and tweak strategies on the go."

Olivia says around a third of Australia's SMSFs choose Macquarie's CMA as their cash hub[1] for the same reasons. "It gives you visibility, data and control. Our data feed quality is the best in market, and our authority options are a game-changer. Some clients will want their adviser to execute all their cash transactions – right down to paying their tax bill – because they're busy. They'll get a push notification when the payment is made. Other clients may want to authorise the payment, and they can do that from their mobile or desktop."

Lisa believes nothing compares to Macquarie's fully integrated cash ecosystem.

"It's easy for us, and easy for our clients. It's the cornerstone of our cash flow offer," she says.

To learn more about Macquarie's cash solutions, request a call or explore their cash management solutions.

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[1] Macquarie Bank Limited data, ATO Self-managed-super Fund Statistical Report.

The super wars are alive and well

By Darin Tyson-Chan, Editor, *selfmanagedsuper*

They say a week is a long time in sport, but after last week it would appear it is a long time when it comes to superannuation as well. At the time of writing this column we've just experienced a week of probably the fiercest coverage of superannuation I've witnessed since 2019 when the Labor Party mooted its intentions to revamp the franking credit system for retirees.

The week began with Treasurer Jim Chalmers revealing the government's intention to enshrine the objective of superannuation into law and saying it was putting an end to the super wars by doing so. In reality I'd suggest he actually reignited the war. And how quickly it escalated too.

So what's so bad about enshrining the objective of retirement savings into law? Nothing in principle, but it all comes down to how that objective is worded. The government has issued a consultation paper on the subject that states: "The objective of superannuation is to preserve savings and deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way."

Since its release, concerns have been raised about several elements of this proposed objective. Firstly, it is unclear how a "dignified retirement" will be determined and secondly, what constitutes the principles of "equitable and sustainable".

With regard to the second point it all became a little clearer as the week progressed. It appears equitable means the disparity between the balances different individuals have in their superannuation account shouldn't vary too much and sustainable refers to the affordability, from a government perspective, of the associated tax concessions, although this element allows Canberra plenty of leeway to make other "unsustainable" changes should it see fit.

But the debate continued to heat up with speculation the ALP was looking to implement a limit on the balance anyone could hold in super and by Thursday a figure of $3 million was suggested appropriate for this cap.

Basically once this threshold was introduced only monies up to $3 million would be taxed concessionally in the superannuation environment.

This is all in an effort to address Labor's concerns about some excessive super balances currently in play and this was already flagged back in November last year when Assistant Treasurer and Financial Services Minister Stephen Jones alerted our attention to 32 SMSFs that had over $100 million of assets in them, with one having a member balance as high as $400 million. In other words, the minister is looking to shape future policy on the strength of the experience of 32 SMSFs out of a total of 603,432 funds in this sector alone.

The aspect neither Chalmers nor Jones will acknowledge is the fact all of these funds with very high balances, and they are not restricted to SMSFs, are a legacy of superannuation rules of the past. The individuals with these amounts accumulated in their funds did so without breaking any laws in place at the time.

Consider this: the current yearly concessional contribution cap is $27,500 and the annual non-concessional contribution cap is $110,000. Simple arithmetic would suggest it would take many decades to save over $100 million with these imposed limits.

Further, there are already measures in place to limit how much money people can direct towards the superannuation system. If a person's total super balance is $1.7 million or over, they cannot make any additional non-concessional super contributions. In addition, the tax-free status of monies in pension phase will only be applied up to a limit of $1.7 million.

"...be under no illusion, despite what Chalmers told us at the start of last week, the super wars are well and truly underway once more.

So the question has to be asked whether stripping balances back to a maximum of $3 million is really necessary.

But, of course, there will be a significant logistical issue in enacting this limit that will no doubt have severe effects on both the share market and the property market.

This is because many of the SMSFs with the higher balances being targeted will have substantial holdings in Australian equities and direct property. To get each of these funds down to a total asset value of $3 million, many domestic stocks and properties will need to be sold and we all know what that will do to the state of those markets. Is this an economic reality the government is really prepared to inflict on the public given the already high rates of interest and inflation it is currently having to manage?

As you can imagine I could go on and on about the flaws associated with this policy direction, but the word length of the column will not allow me to do so. But be under no illusion, despite what Chalmers told us at the start of last week, the super wars are well and truly underway once more.

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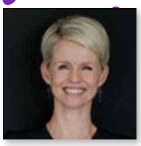

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