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## **September 2019 Quarter in Review**

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### **Legislative changes**

A busy quarter in Parliament produced little of application to personal finances, but began with the passage of the tax cuts promised in the May election.

Not yet law, but introduced to Parliament in the quarter, was the Currency (Restrictions on the Use of Cash) Bill 2019 which introduces offences for entities that make or accept cash payments of \$10,000 or more.

During the quarter, some minor changes were made to the Superannuation Guarantee Act relating to people with multiple employers.

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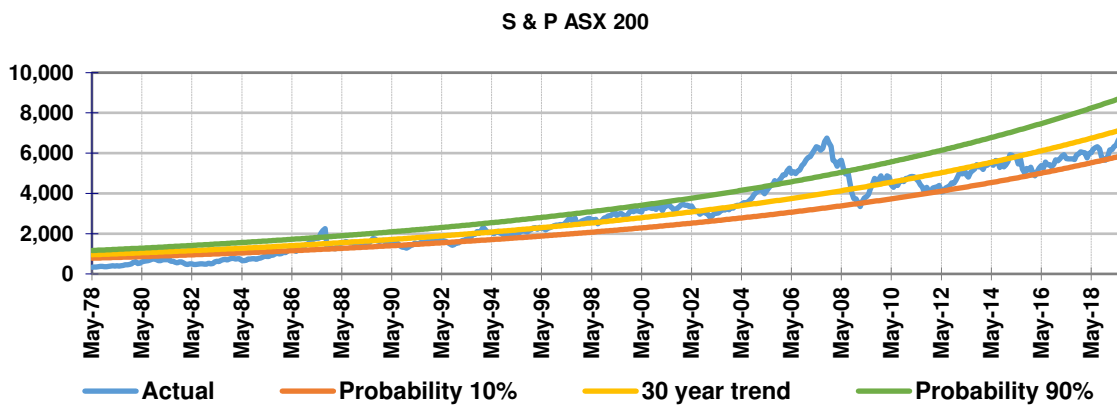


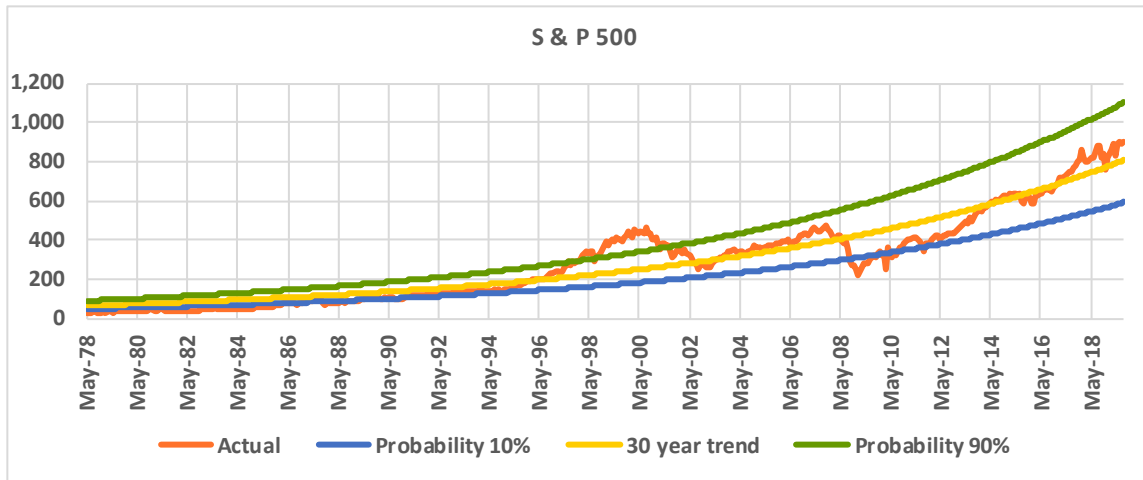
The eponymous Treasury Laws Amendment (Ending Grandfathered Conflicted Remuneration) Bill 2019 started its parliamentary process during the quarter. If passed, it will mark the end of the tyranny of commissions the countering of which was Andep’s July 1982 raison d’être.

The opt in arrangements for insurance within superannuation for people under 25 and with balances less than \$6,000 passed both houses on 16 September.

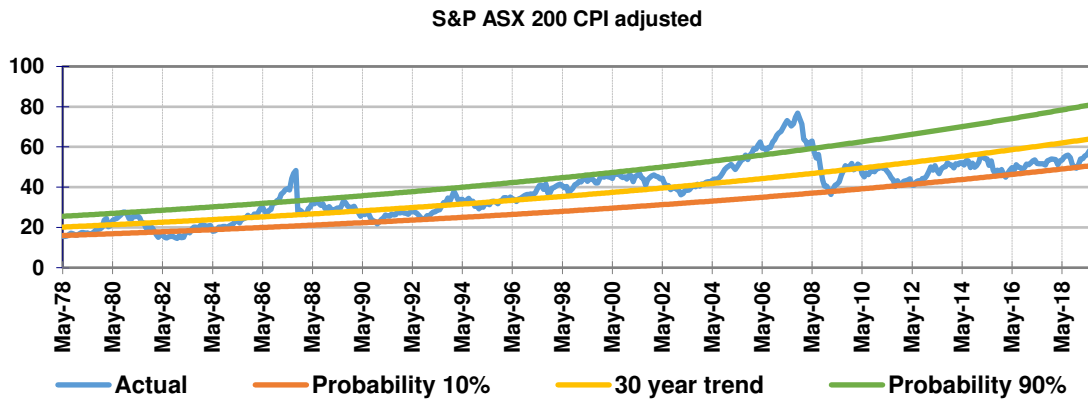
### Markets and trend lines

The following charts show, respectively, the best fit of constant compound growth in the Australian and United States of America broad market indices together with some statistically derived probability percentiles. On this statistical basis, the Australian market continues to provide quite good value being roundly half a standard deviation below the trend and the USA less so being similarly dispersed above its trend line. On other measures, too, the US market remains high. For example, US share prices measured as a proportion of ten year average inflation adjusted earnings are 71% above the long term average, down from 81% last quarter. As written in previous Quarters in Review, the 30 year trends encompass a period of steadily falling interest rates, which is at or near its end. These make conclusions from the trend charts optimistic.





The last thirty years have also been a period of declining inflation. The following chart shows similar information and a similar conclusion for the Australian stock market adjusted for Consumer Price Index inflation.

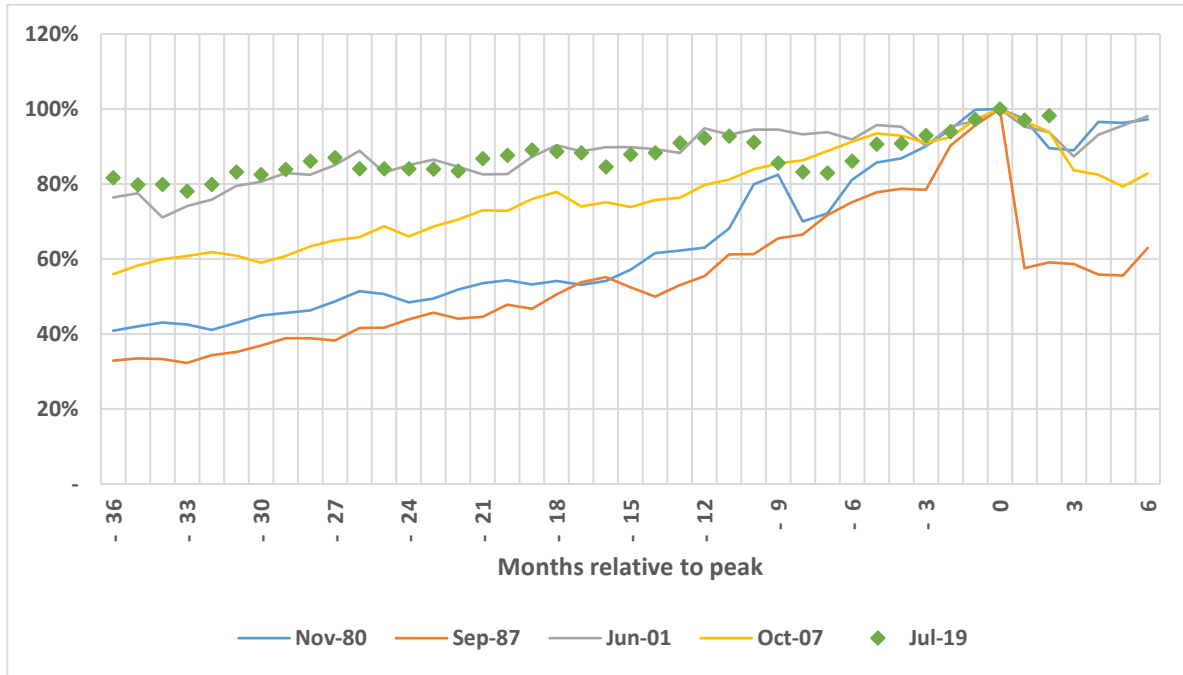


Another graphical view of the markets is a comparison of the movement in the three years leading up to the most recent peak and the following months and the three years before and six months after significant peaks.

The following chart relates to Australia and the diamonds of recent progress are almost uniformly above the lines representing the lead up to all other peaks, except for the last ten months. The parallel with 2001, noted in the September 2018 to March 2019 Quarters in Review, resumes after the distortion of the December quarter falls and the subsequent rebound.

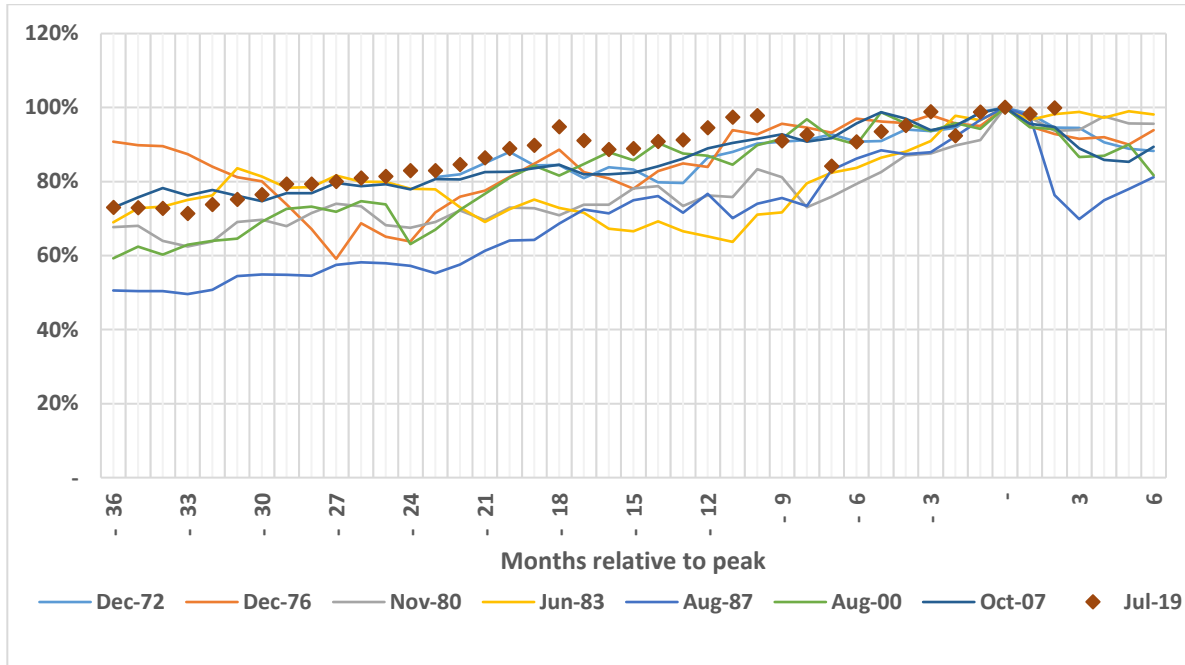


The chart continues to show a historically slow long term rise to the most recent peak. It also shows a gentle recent decline.





The rapid USA post September fall was followed by the strongest four monthly increase in two generations. Putting aside the fluctuations of the last twelve months, the USA market's rise has also been generally slower than in the past.



The New Zealand stock market slowed somewhat during the quarter but outperformed all major markets over the past three years (14.1% pa), with the USA next best (11.1% pa), then Australia (7.2% pa). Not surprisingly, turmoil ridden Hong Kong's market is down over the last six months (-10.2% pa). The UK market had a strong month in September and is marginally up for the last six months and marginally down for the last year.

Yet again, it remains the case that stock markets globally are hostage to the USA / China trade battle and the actions of central bankers in charge of the interest rate levers.

The Australian housing "bust" of the last three years appears over with concerns about a decline replaced with worries about restarting a debt fuelled binge. Market concerns remains about weak consumption and wages growth in Australia with little evidence yet of benefits from the July tax cuts (although it may be too soon to tell). As was the case last quarter, these concerns are against the backdrop of the threat to trade of a Chinese slowdown, either organic or trade war related.

**Economic milestones**



On 2 July, the Reserve Bank of Australia (RBA) announced its second consecutive 0.25% monthly cash rate cut, taking the Official Cash Rate (at which the RBA lends to or borrows from banks overnight) to 1.00% per annum.

On 24 July, the Australian stock market measured by the ASX 200 ended 24 July at 6,808, the first time it exceeded its all-time high daily close of 6,794 of 30 October 2007. On 6 August, the yield of a ten year Commonwealth bond fell below 1% per annum for the first time.

The AFR of 18 July reported further steps taken by the University of NSW to produce a marketable quantum computer. Andep has reported on this topic in several earlier Quarters in Review and expects to report more milestones as they are passed.

The US stock market, as measured by the S & P 500, closed the week ending 12 July at an all-time high.

On 7 August, the New Zealand Reserve Bank cut its interest rate by 0.5% and indicated a willingness to cut further and that of India reduced its rate for the fourth consecutive month. On the same day the Australian dollar breached a ten year low against the US currency.

In mid August, Germany reported a decline in its quarterly GDP, a situation attributed to the trade difficulties.

Large sell offs of stock markets occurred on the 6<sup>th</sup> and 15<sup>th</sup> of August. On the latter date, the inverse yield curve mentioned in the December 2018 Quarter in Review entered the main stream media.

On 3 September, The Australian Bureau of Statistics (ABS) announced the first monthly surplus of Australia's trade income over expenditure, since the last months of the Whitlam government. On the next day, the ABS announced that economic growth for the year to June at 1.4% equalling that of the year to September 2009 and the slowest since then.

On 18 September the US Federal Reserve Board cut its target federal funds rate target range by 0.25% to 1.75-2.00% per annum.

### Environment

On 20 August, the AFR reported on a study examining the conversion of a coal fired power station to one heated by a catalytic conversion of hydrogen and ambient oxygen to water. This is interesting in view of the work done in storing hydrogen (see June 2019 Quarter in Review) and the increasing facility of using renewable energy to separate hydrogen. Although serious discussions are at least three years old, it is not yet time, however, to declare hydrogen a winner over batteries.



At the intersection of the environment and the Courts, the AFR of 18 September reported a member of a superannuation fund suing the trustees for not adequately considering climate risks.

Respected e-zine, Renew Economy, reported that the Australian-German Energy Transition Hub had aired a scenario in which Australia produced 200% of its energy needs from renewable sources and used hydrogen storage to provide backup and to export the surplus.

**Economic and market statistics**

The following table shows key economic and market statistics.

	Latest date	Now	1 year ago	3 years ago	7 years ago
S&P /ASX 200- Australia	Sep 19	6,688	6,208	5,436	4,387
Annual change to latest date			7.7%	7.2%	6.2%
S&P /ASX 200 dividend yield	Jul 19	3.92%	4.02%	4.28%	4.72%
S&P /ASX 200 P/E ratio	Jul 19	17.4	16.84	17.33	12.81
Topix- Japan	Sep 19	91.6	104.80	76.30	42.50
Annual change to latest date			-12.6%	6.3%	11.6%
S&P 500- US	Sep 19	901.4	882.4	656.6	436.3
Annual change to latest date			2.2%	11.1%	10.9%
GDAXI- Germany	Sep 19	11,970	11,448	10,665	7,261
Annual change to latest date			4.6%	3.9%	7.4%
Average weekly earnings \$	Jun 19	1,635	1,585	1,516	1,349
Annual change to latest date			3.1%	2.5%	2.8%
Consumer price index	Sep 19	114.80	113.50	109.40	101.80
Annual change to latest date			1.1%	1.6%	1.7%
Unemployment	Sep 19	5.3%	5.20%	5.60%	5.50%
Gross domestic product \$ m per quarter	Jun 19	465,885	459,516	419,499	379,344
Annual change to latest date			1.4%	3.6%	3.0%
RBA cash rate	Sep 19	1.0%	1.50%	1.50%	3.50%
3 year Commonwealth bond	Sep 19	0.8%	2.06%	1.56%	2.55%
10 year Commonwealth bond	Sep 19	1.0%	2.63%	1.99%	3.09%
USD/AUD	Sep 19	0.6749	0.7222	0.7630	1.0464
Annual change to latest date			-6.5%	-4.0%	-6.1%

**Other people's views**



Fund Manager [Auscap Asset Management](#), in its August newsletter produced a [chart](#) that provides a stark reminder that the stock market is not homogeneous and some interesting commentary.



*Auscap commented the “growth” companies as a group have a simple average performance of over 150% since 1 January 2017. The domestic cyclical businesses, which include banking, retail, media, building and construction and property development companies, are down approximately 7%.*

*Part of this dispersion is due to the relative differences in the companies’ growth in earnings, but a more significant part has been the increasing difference in earnings multiples paid for these two groups of companies, reflective of the weight of money chasing perceived high growth businesses. While we have no insight into when this will normalise, paying ever increasing prices for businesses, even allowing for the attractiveness of those businesses, is in our opinion likely to lead to a significant risk to capital at some point.*

Investment house [BlackRock](#) quarterly quantifies geopolitical risk and its likely effect on world share markets. The following charts show the June 2019 situation and the history of the index.





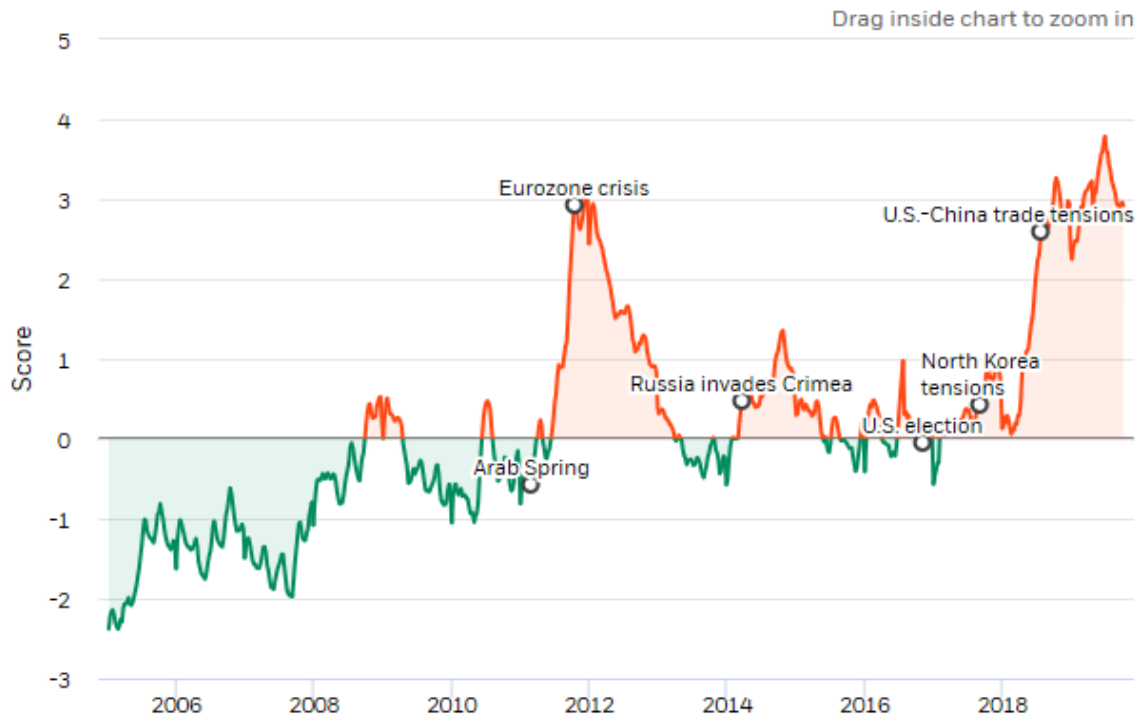
Relative likelihood and market impact of risks

Original estimate    BGRI-adjusted





## Global index



Source: BlackRock Investment Institute, with data from Refinitiv. Data as of October 3, 2019. Notes: We identify specific words related to geopolitical risk in general and to our top-10 risks. We then use text analysis to calculate the frequency of their appearance in the Refinitiv Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history from 2003 up to that point in time. A score of one means the BGRI level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average.

Source: BlackRock Investment Institute. See Andep's June [2018 Quarter in Review](#) for an explanation of this chart.

### Products

For reasons obscure to Andep, at the beginning of the quarter, Bitcoin resumed its unheralded upward trajectory at roundly 55% of its all time peak. By the end of the quarter, it was down to 50% of its all time high.

On 27 September, the Treasurer announced a review of Australia's retirement income system. by Mr Michael Callaghan AM PSM, Ms Carolyn Kay and Professor Deborah Ralston. Incredibly, Prof Ralston has stood aside from her position as Chair of the Self Managed



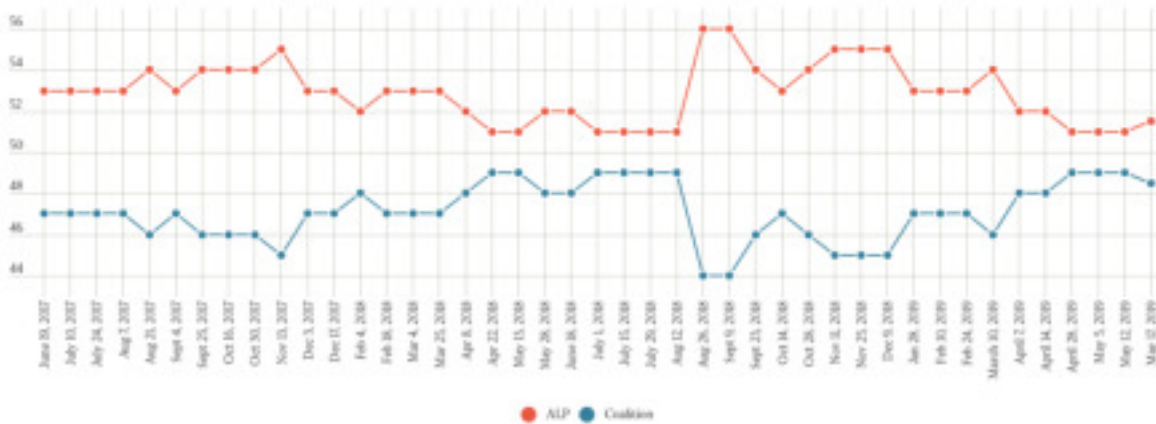
Superannuation lobby group for the duration of the enquiry and will resume that role on its completion.

### Politics

Elections held in the quarter included the following.

Jurisdiction	Election	Result
Afghanistan	Presidential	Incomplete count
Austria	Parliament	Modest gains for Centre Right, modest losses for Centre Left with significant losses for Far Right
Canada	Manitoba Legislative Assembly	Centre Right government comfortably survives swing
Germany	State parliaments	Strong swings to Far Right in two States
Greece	Parliament	Large swing delivered outright majority to Centre Right
Israel	Parliament	Centre and Centre - Far Right parties hold about a quarter of seats each while Arab based parties outpolled religious parties and hold more than 10% of seats
Japan	Half upper house	Ruling coalition lost the two-thirds majority needed to enact constitutional reform
Ukraine	Parliament	Outright majority of seats won by new Europhile libertarian party named after a TV series

The following chart shows two party preferred voting indications published by the Australian newspaper.



### Courts

On 4 September, the AFR reported a Fair Work decision that K Mart employees would be disadvantaged by being forced to use an industry superannuation fund as proposed in an enterprise agreement that it rejected. The quantum of disadvantage was not disclosed. If taken as a precedent, will render difficult for any agreement meeting the Better Off Overall Test, which must be passed by new agreements.

E-zine “The Rub” reported a NSW case in which a putative purchaser of a property was liable for the shortfall after the property was resold following failure of the putative purchase to secure finance. The subsequent purchase price was less than 80% of the original contracted price.

ASIC claimed a small scalp when an Adelaide financial adviser was sentenced to 10 years in prison for stealing nearly \$5 million from SMSF clients. The theft did not appear to be sophisticated.

In its turn, in a judgement delivered on 13 August, ASIC was scalped. It failed in its attempt to have Westpac convicted of irresponsible lending by using average expenditure information rather than a detailed examination of each individual’s circumstances. The judgement may come to be known as the Wagyu beef case as his Honour said *”I may eat wagyu beef every day washed down with the finest shiraz, but, if I really want my new home, I can make do on much more modest fare”*. ASIC was ordered to pay Westpac’s costs.

On the same day as the AFR reported ASIC’s concern with the quality of audits performed by the “final 4” accounting practices, it reported a case in which an investor alleges one of those firms “caved in” to a client wishing to characterise mining overburden as a saleable asset.



In the same vein as the Waygu case, on 20 September, Justice Janet Jagot found that ASIC's case provided "Insufficient evidence to infer anything about liability" in respect of wealth manager IOOF's behaviour uncovered by the Royal Commission.

### **Disclaimer**

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