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December 2019 Quarter in Review

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Legislation

Separate from the Westpac anti money laundering and counter terrorism financing problems, minor amendments to this legislation were introduced to Parliament during the quarter.

The public opprobrium of the banks was reflected in the introduction by MHR Katter of a bill to have the Commonwealth Auditor General audit all banks. The bill has, to date, consumed no further parliamentary time.

The Australian Business Growth Fund Bill, giving effect to an election promise to provide a \$10 million fund from which small businesses can borrow, was introduced in December.

Introduced to parliament in the previous quarter, 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 has progressed to having passed the lower house and is now before the Senate.

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The Fair Work (Registered Organisations) Amendment (Ensuring Integrity No. 2) Bill 2019 which replaced a similar bill aimed at disqualifying unfit people from office in organisations registered with the Fair Work Commission and rejected by the Senate passed the House of Representatives on 5 December and now the new bill is before the Senate.

A 2006 referral by WA of powers to deal with the superannuation (but no other property) of separating de facto couples was not accepted by the Commonwealth as it was inconsistent with other States. In October 2018, however, the Commonwealth decided to accept the narrow referral of power and the Family Law Amendment (Western Australia De Facto Superannuation Splitting and Bankruptcy) Bill 2019 was introduced to the House of Representative in the quarter.

The Social Services Legislation Amendment (Payment Integrity) Bill 2019 passed the lower house on 2 December and the Senate second reading debate stands adjourned. The Bill increases the liquid asset waiting period maximum for Newstart and other allowances from 13 to 26 weeks.

The National Housing Finance and Investment Corporation Amendment Bill 2019 has passed all stages, enshrining in law the election commitment to provide free mortgage insurance for first home buyers who meet income requirements and buy a house for less than a region specific “Price Cap”.

The Treasury Laws Amendment (2018 Superannuation Measures No. 1) Bill 2019 received royal assent early in October allowing employees at risk of breaching their concessional contribution caps by Superannuation Guarantee contributions by multiple employers to prevent this. The Bill also tightened some provisions around limited recourse loans of self managed superannuation funds.

The Treasury Laws Amendment (2019 Measures No. 2) Bill 2019 received royal assent on 28 October. It extended the concessional tax treatment of genuine redundancy payments to those over 65 but under their Social Security pension age.

The Treasury Laws Amendment (2019 Measures No. 3) Bill 2019, progressing through the lower house, has three components, closing a loophole on taxation of benefits to minors from testamentary trusts, deferring until January 2026 the requirement for financial advisers to hold degrees and deferring the requirement for them to pass the “approved examination” until January 2022.

The Treasury Laws Amendment (2019 Tax Integrity and Other Measures No. 1) Bill 2019 passed both houses and ensures, amongst other things, that employers cannot use the fact that



employees salary sacrifice to superannuation to reduce their Superannuation Guarantee obligations.

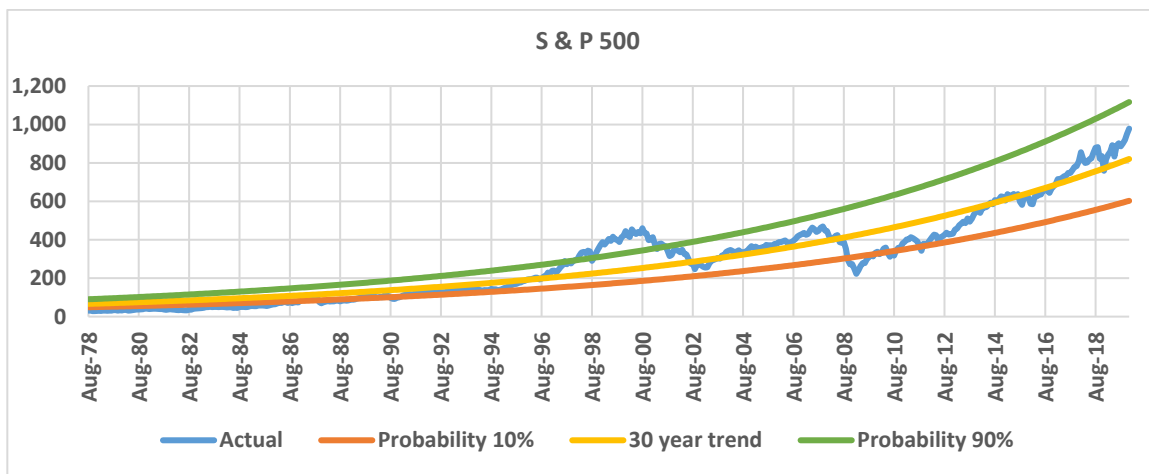
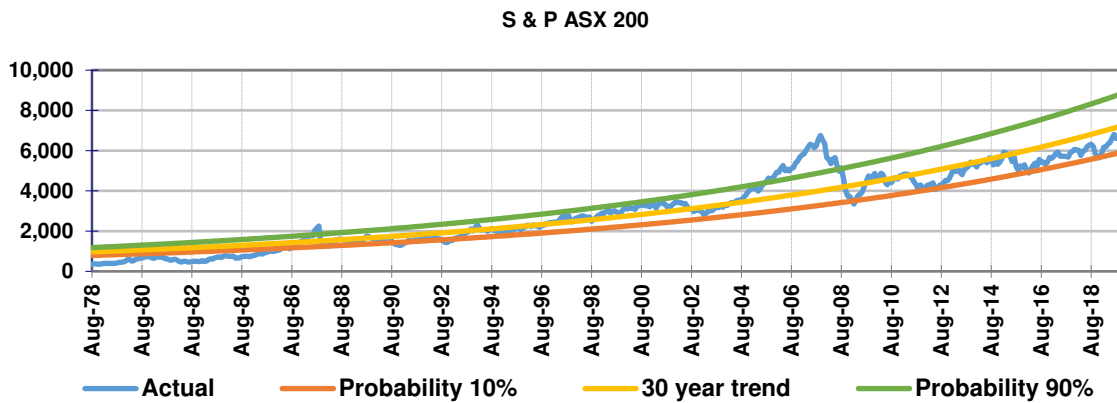
The Treasury Laws Amendment (Ending Grandfathered Conflicted Remuneration) Bill 2019, which started its parliamentary process during the previous quarter, passed both houses and the Governor General and is now in force. This marks the end of the tyranny of commissions on investment products, the countering of which was Andep's July 1982 *raison d'être*. The conflicts inherent in commissions, however, remain in respect of insurance policies.

The Treasury Laws Amendment (Reducing Pressure on Housing Affordability Measures) Bill 2019 is now law, removing the entitlement to the capital gains tax main residence exemption for foreign residents.

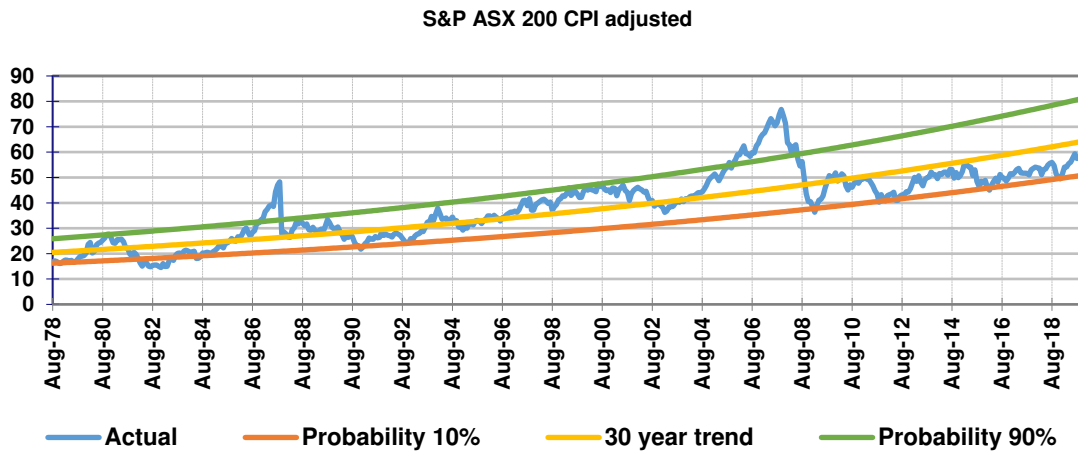
The Treasury Laws Amendment (Your Superannuation, Your Choice) Bill 2019 reintroduces measures, which were rejected by the previous parliament, aimed at ensuring employees under workplace determinations or enterprise agreements registered after June 2020 have an opportunity to choose the superannuation fund for their compulsory employer contributions.

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 unchanged over the quarter at roundly half a standard deviation below the trend and the USA less so having moved, over the quarter, from half to three quarters of a standard deviation 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 87% above the long term average, up from 71% 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 may make conclusions from the trend charts optimistic.

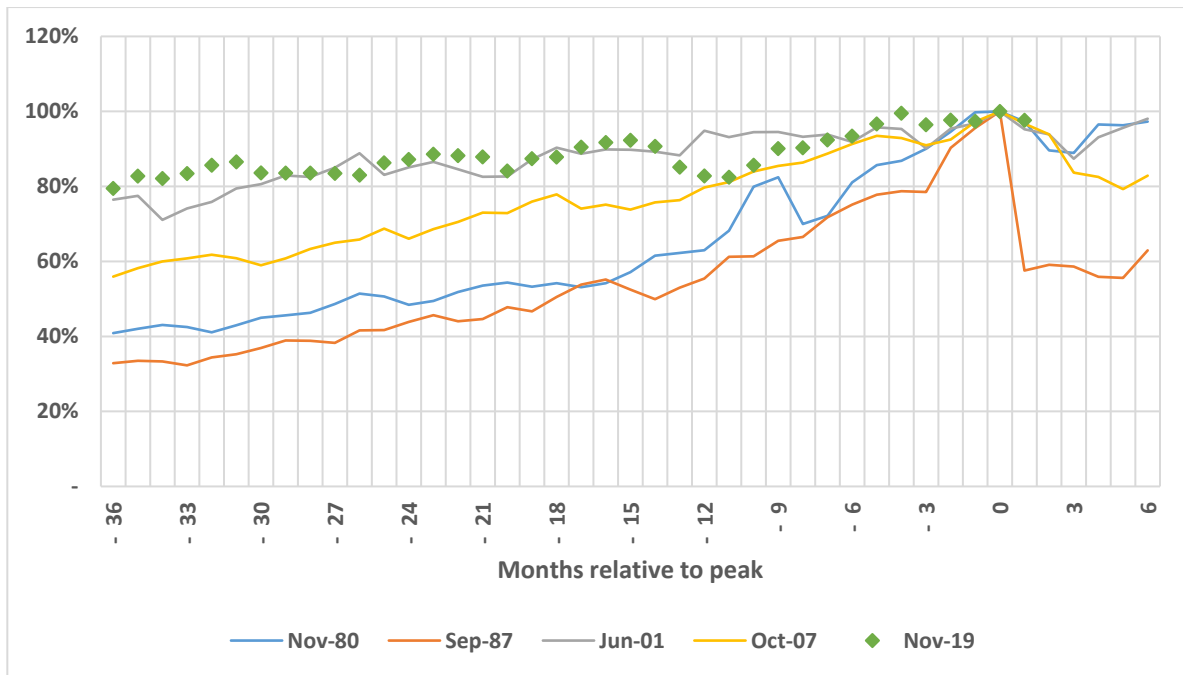


The last thirty years have also been a period of generally declining inflation. The following chart shows similar information and a similar conclusion for the Australian stock market adjusted for Consumer Price Index inflation.

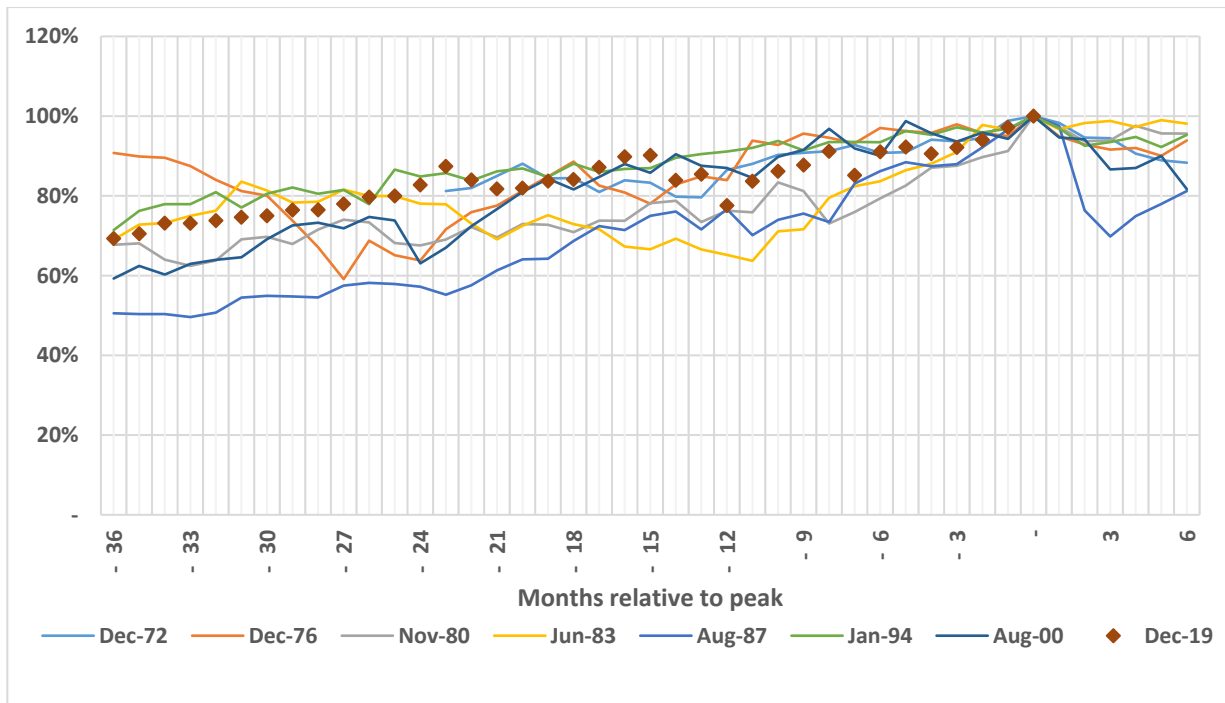


Another graphical view of the markets is a comparison of the movement in the three years leading up to the most recent peak and the following months and the three years before and six months after significant peaks. That view seeks to answer the question “*does history suggest we are heading to a major fall?*”

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 as far back as the September 2018 Quarter in Review, continues save for the perturbations late in 2018. The chart continues to show a historically slow long term rise to the most recent peak. It also shows a gentle recent decline as December finished lower than November, despite some intra month highs.



The run up of the USA stock market during 2019 was similar to or faster than the increase leading to all but the August 1987 peak. The three year increase is in the mid range of three year increases leading to other peaks.



Of the markets followed by the Reserve Bank of Australia (RBA), the New Zealand stock market has performed the strongest over one, two and three years, followed, over each of these durations, by the USA. Surprisingly, turmoil ridden Hong Kong's market is only down 1.2% over the last six months.

Most markets are at a higher level than they were at the end of the last quarter, and they remain hostage to the USA / China trade battle and the actions of central bankers in charge of the interest rate levers. While the former may have eased a bit, we now enter a US election year.

In respect of the Australian market, worries about housing restarting a debt fuelled binge have eased as housing markets have improved only slowly. The July tax cuts were party banked or used to clear debt without firing up consumption and the federal budget has benefitted from high iron ore prices. In the absence of an external shock, the Australian stock market can expect business as usual, but is vulnerable to a realisation that the local economy is soft.

Economic milestones

On 5 December, the latest Australian Life Tables, based on the 2016 Census were published. Mortality rates continue to lighten, but for people at the former traditional retirement age of



65, not as fast as they have in the past. Females at 65 can expect to live 22.47 years while males are looking at 19.86 years.

Based on the changes since the 2011 life tables, the expectancy of a female aged 65 has increased by two hours and 1 minute per day, while for males of that age, the daily increase was three hours and 4 minutes.

On 15 October, the International Monetary Fund (IMF) revised its estimate of Australian GDP growth in 2019 to 1.7%. It also predicted China's growth rate to fall to 5.8% in 2020. This is a level not seen since 1992.

On the topic of quantum computing, reported in several Quarters in Review, the AFR reported on 25 October that a Google quantum computer had performed calculations that would take a standard computer 10,000 years in 200 seconds. IBM begged to differ saying that a standard computer could do the task in 2.5 days. Regardless of the truth of this matter, the Sydney University / Microsoft quantum computing project is clearly not the only horse in this race.

On 28 October, Commonwealth Bank executives told a parliamentary committee that fewer than 7% of the bank's borrowers reduced their mortgage repayments in response to reduction in interest rate, instead electing to retain their current payments and accelerate clearance of their loan. This suggests the RBA is getting minimal traction from its reduction in interest rates.

On the first day of the quarter, the RBA further reduced its cash rate to 0.75% per annum.

On 30 October the US Federal Reserve Board reduced its target range for the federal funds rate by 0.25% to 1.5 to 1.75% per annum.

On 1 November, the US stock market as measured by the S& P 500 reached another all time high. On two occasions in the quarter, the index passed its all time highs on four consecutive days.

Early in the quarter came the announcement that the decline in the German GDP reported in the last Quarter in Review in respect of the June quarter was reversed to the smallest measurable (0.1%) extent in the September quarter. Germany thus avoided a recession.

At the end of November and again at the beginning of December, the Australian share market (ASX 200) breached all time highs.

At the end of December, the Greek stock market was 43% higher than it started the year.



The environment

2019 ended with bushfires still uncontrolled in Eastern Australia.

These are historically significant, but at the end of December, not unprecedented in terms of both lives lost and areas burned.

The total area affected is 63,000 square kilometres. This is the largest area burned since the 1974-75 fires, which consumed 99,000 square kilometres in all the mainland states except Victoria.

The current damaged area is marginally less than the size of Tasmania, 0.8% of Australia's area and equal to the area encompassed by a half circle of radius 200 kilometres. Centred on Fremantle, such a shape would almost include Jurien Bay in the North, reach Doodlakine in the East and include Bunbury in the South.

On 7 December, Energy Minister, Angus Taylor, stated Australia is on target to reach its Kyoto 2030 targets and that it may not be necessary to use "carry over credits" from previous agreements.

The Environment and Courts converged in the publication of an article in the AFR in which former Royal Commissioner Kenneth Hayne wrote of the three Rs as they relate to climate change. Boards must, he wrote, "*Recognise climate risks, Respond to those risks and Report their actions to their shareholders.*"

Industry e-zine RenewEconomy.com.au published this chart showing the average cost of electricity over the life of a generating asset as estimated by global consultancy Lazard. The chart does not address storage costs, but does include construction costs.



The quarter was not without references to hydrogen. Renew Economy [noted](#) UNSW researchers have developed a method of electrolysis of water that requires less expensive cathode and anode materials and significantly less energy. The same publication reported the commencement of a plant to use solar powered electrolysis to produce hydrogen for blending with existing household gas. Ironically, the plant appears to have been built on the site of the old Mitsubishi car factory in south suburban Adelaide.

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	Dec 19	6,684	5,646	5,666	4,649
Annual change to latest date			18.4%	5.7%	5.3%
S&P /ASX 200 dividend yield	Sep 19	3.95%	4.08%	4.38%	4.50%
S&P /ASX 200 P/E ratio	Sep 19	17.2	16.70	16.53	14.38



	Latest date	Now	1 year ago	3 years ago	7 years ago
Topix- Japan	Dec 19	99.3	86.20	87.60	49.60
Annual change to latest date			15.2%	4.3%	10.4%
S&P 500- US	Dec 19	978.4	759.2	678.0	431.9
Annual change to latest date			28.9%	13.0%	12.4%
GDAXI- Germany	Dec 19	13,249	10,559	11,481	7,612
Annual change to latest date			25.5%	4.9%	8.2%
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	Jun 23	115.40	115.40	115.40	108.60
Annual change to latest date			0.0%	0.0%	0.9%
Unemployment	Nov 19	5.2%	5.10%	5.72%	5.20%
Gross domestic product \$ m per quarter	Sep 19	477,294	460,729	419,002	382,074
Annual change to latest date			3.6%	4.4%	3.2%
RBA cash rate	Dec 19	0.8%	1.50%	1.50%	3.00%
3 year Commonwealth bond	Dec 19	0.8%	1.93%	1.97%	2.69%
10 year Commonwealth bond	Dec 19	1.2%	2.43%	2.79%	3.23%
USD/AUD	Dec 19	0.7006	0.7058	0.7236	1.0384
Annual change to latest date			-0.7%	-1.1%	-5.5%

Other peoples' views

The Chief Executive of not for profit aged care operator Advent Care in Victoria, David Reece was [reported in respected industry publication "The Weekly Source"](#) as saying in connection with the Aged Care Royal Commission as follows *'The Commissioners have only visited 24 homes which is only 0.8% of the industry and therefore do not present a balanced*



picture of the industry.” On 11 November, exchange traded fund manager BetaShares Chief Economist, David Bassanese, [published a prediction](#) that the Australian dollar will fall to USD 0.62 by the end of 2020. This is 10% below the October 2019 closing rate and a level not seen at any month end since the March 2003 measure of USD 0.6036.

Despite all its Royal Commission woes, AMP continues to publish the informative views of its Chief Economist, Shane Oliver. Dr Oliver, who was one of the earliest and most accurate predictors of the housing price slump, sees 2020 dominated by: -

- A pause in the trade war although geopolitical risk is likely to remain high;
- Global growth turning up to 3.3% from 3.0% in 2019;
- Continuing low inflation and low interest rates and
- The US dollar peaking then heading down.

In Australia, his view is that strength in infrastructure spending and exports will help keep the economy growing but it’s likely to remain constrained to around 2% by the housing construction downturn, subdued consumer spending and the drought. Unemployment is likely, he wrote, to drift up, wages growth remain weak and underlying inflation remain below 2%.

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



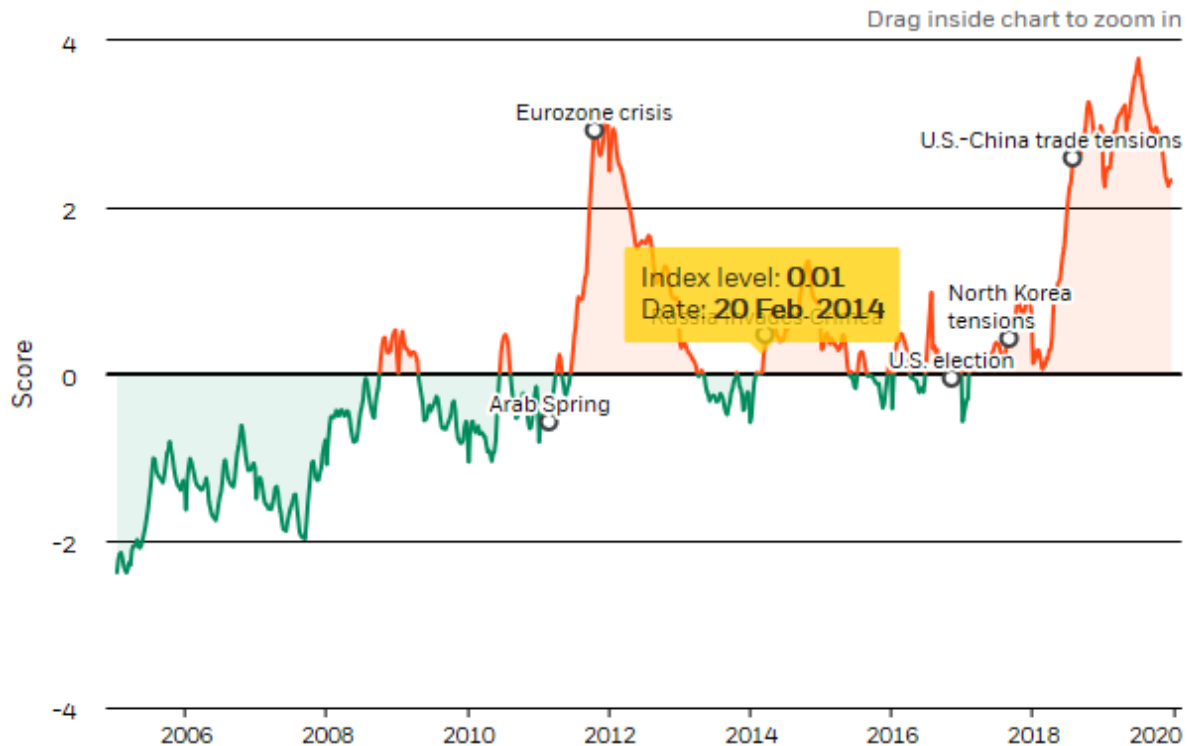
Relative likelihood and market impact of risks

Original estimate BGRI-adjusted





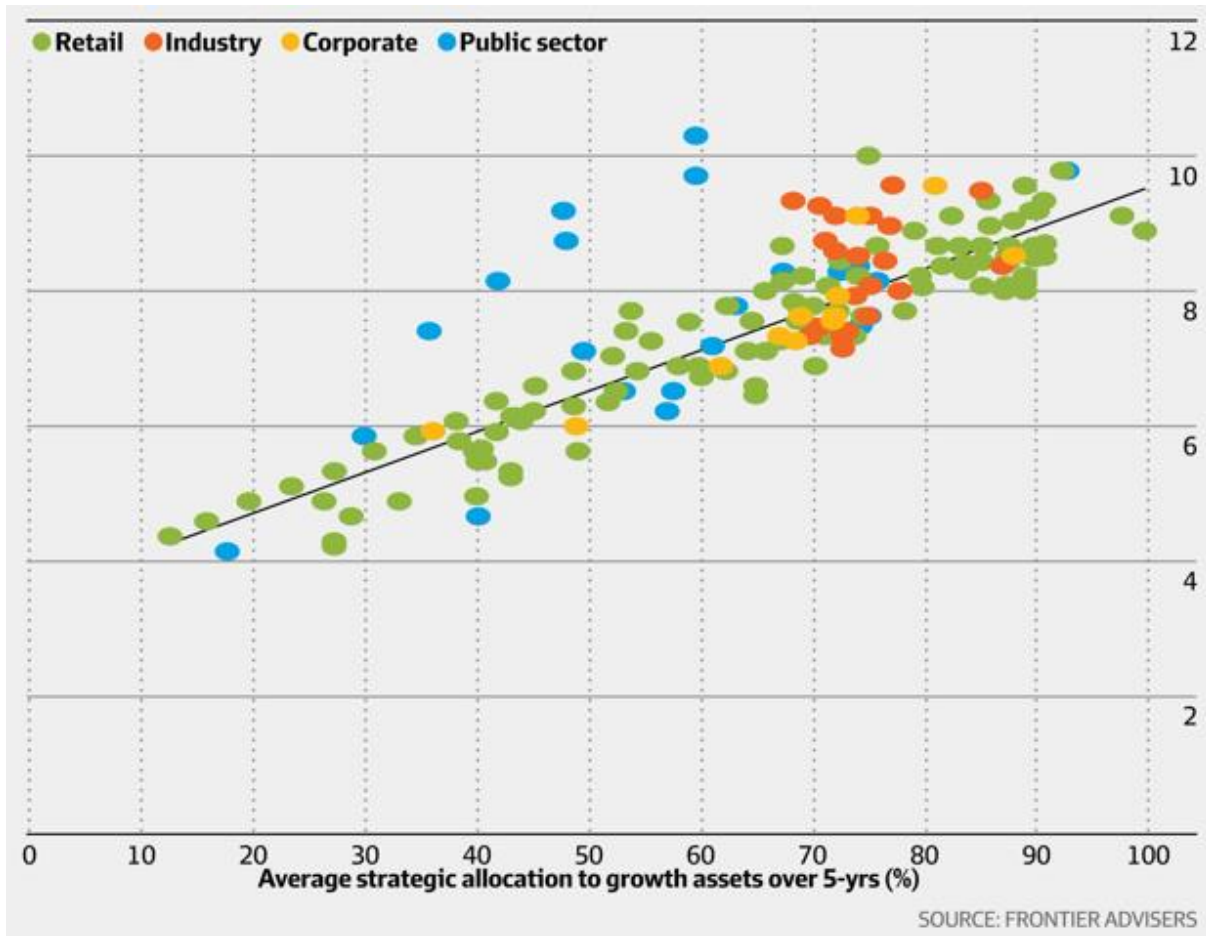
Global index



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

Products

The AFR, on 9 December, published a plot of superannuation fund returns against the proportion of assets directed towards growth investments, with various types of fund colour coded.



The chart showed annualised net investment returns in the five years to September 2019 related to “MySuper” (default) options and showed some excellent performances by some public sector funds and confirmed the superiority of industry funds.

The Australian Prudential Regulatory Authority (APRA) announced on 2 December that it would be requiring life insurers to hold more capital against disability insurance risks. It urged insurers to increase premiums to stem a five year run of losses totalling more than \$3.4 billion. It highlighted the fact that some fixed value policies pay more than the claimant’s income at the time of the claim.



Bitcoin, which Andep follows for no reason other than curiosity, ended the quarter down 14% at roundly 41% of the peak of late 2017.

On 22 November, Treasury issued a consultation paper as part of the review of Australia's retirement income system. Submissions close on 3 February.

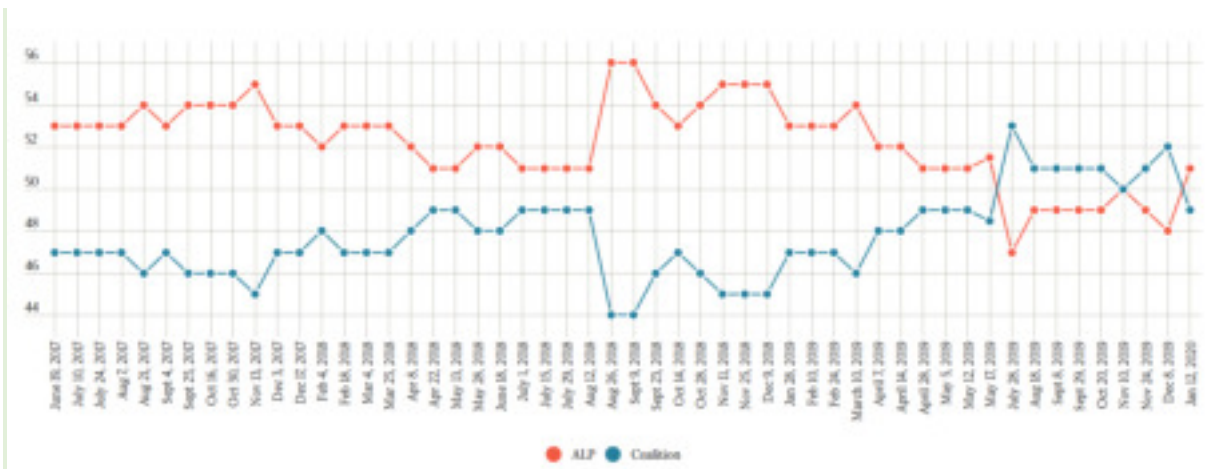
Politics

Elections held or concluded in the quarter included the following.

Jurisdiction	Election	Result
Afghanistan	Presidential	Appeal against preliminary count which saw the incumbent re-elected. If the appeal is upheld, a second round will be required
Canada	General election	While the centre right Conservatives received the most votes, the centre left Liberals won the most seats and retain government, albeit now as a minority government. The secessionist Bloc Quebecois party tripled its seats from 10 to 32
Hong Kong	Local councils	Pro-democracy groups gained control of 17 of the 18 local governments and roundly 10% of the seats on the Election Committee, which chooses the Chief Executive
Poland	General election	Ruling centre to far right Law and Justice Party lost lower house seats but retained a narrow majority while losing its upper house majority
Spain	General election	Strong swings to centre right and far right parties, but centre left Socialist Workers Party remains in government in coalition with left to far left Unidas Podemos
Switzerland	Federal election	Swing to Greens and more centrist Green Liberal parties largely at the expense of populist right wing Swiss People's Party
United Kingdom	General election	Scottish Nationalist Party increased its seats by 37% from 35 to 48, Labour lost 60 seats (22%) and Conservatives gained 60 seats (13%). Conservatives hold an absolute majority of seats



The following chart, which extends into the new quarter, shows two party preferred voting indications published by the Australian newspaper .



Courts

On 19 December, the Fair Work Commission ordered McDonald’s employees off an enterprise bargaining agreement (EBA) and back on to the award. This is another consequence of the narrow application of the Better Off Overall Test (BOOT) determining that some people who work particular shifts are worse off under the EBA thus invalidating the EBA. All of this is against the background of the turf war between the Retail and Fast Food Workers Union, which was established in December 2016 and the Shop Distributive and Allied Employees Association which came out of a 1908 federation of state unions.

On 16 December, the AFR reported ASIC had succeeded in getting an order to prevent Self Managed Superannuation Fund (SMSF) scammers from leaving the country, but only after they had already left. The AFR article highlighted several cases where funds have been stolen by people promoting particular investments through newly established SMSFs.

Early in December, a NSW magistrate began hearing a criminal cartel case dealing with actions arising from a shortfall in an ANZ capital raising. The first institution to do on the others was



granted immunity, as is often the case in cartel actions. The magistrate may refer the individuals involved to a Federal Court jury.

On 24 October, the Federal Court decided that Myer CEO did not cause a loss to shareholders by issuing optimistic, subsequently proven incorrect, forecasts. The Judge said that institutional investors didn't believe the forecasts and therefore the market was not influenced by them.

On 17 October, the Australian Securities and Investments Commission (ASIC) announced it would not appeal a decision against its action lodged in the belief that IOOF entities, directors and executives had failed to act in the best interests of their super members. Careers of IOOF directors and executives the subject of the action remain ruined.

On the next day, lawyers Slater & Gordon lodged a class action seeking to recover excessive fees charged by Colonial First State and used to fund trailing commissions paid. The class action is funded by UK based Augusta Ventures.

On 28 October, the full bench of the Federal Court delivered a win to the Australian Securities and Investments Commission (ASIC), when it found that telephone calls by Westpac staff seeking to persuade people to move superannuation accounts constituted personal, rather than general advice. Personal advice has licensing and duty of care implications. The judgement which will greatly increase the cost of persuading people to purchase bank insurance and investment products.

On 4 December a split judgment of the High Court invalidated common fund orders which obliged all people who benefit from a class action to pay a commission to the litigation funder regardless of whether they chose to participate. Opinion seems to be that this is not the end of class actions, but will make them more expensive.

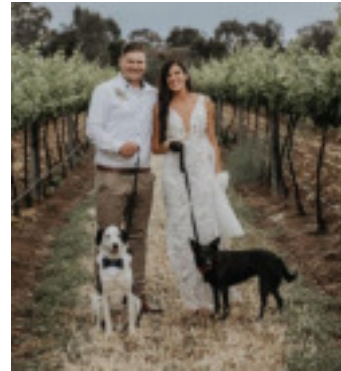
On 11 November, e-zine the Rub.com.au [published an article](#) reporting that half a dozen financial services firms had ignored all requests for responses to complaints lodged with the Australian Financial Complaints Authority (AFCA) up until the stage of case management. More disturbing was the household names in the 30 to 50% non response range including Zurich, PayPal, American Express HSBC and TAL and Nulis (associated with MLC). The article reported that 86% of AFCA "members" did not have a complaint, implying, of course, that 14% sufficiently offended one or more of their clients to inspire them to complain.



Andep news

Pictured at right are Liz Gliddon, her new husband and their dogs.

Following her wedding, Liz is now Liz Rae and this is reflected in her email “from” address.



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