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This Week's Top Articles

- **Richard Thaler: Nobel economist changing our behaviour** *Richard Holden*
- **Housing: balance in our most cyclical sector** *Rumbens and Ponsonby*
- **Check pension outcomes when making a will** *Noel Whittaker*
- **Business model disruption - Part 2** *Hamish Douglass*
- **Understanding the retirement income challenge** *Aaron Minney*
- **New role for outcomes test and retirement goals** *Maree Pallisco*
- **Are bank deposits and gold safe havens?** *Ashley Owen*

Richard Thaler: Nobel economist changing our behaviour

Richard Holden

The Nobel Memorial Prize in Economic Sciences has been awarded to Richard Thaler of the University of Chicago, Booth School of Business, "for his contributions to behavioural economics". He has introduced the study of human irrationality into a discipline that prides itself on rationality.

This is an excellent choice that reflects an important shift in economics during the past three decades, to take human psychology seriously when thinking about economic decision-making. The work has implications for everything from basic individual choices, to retirement savings, to the operation of financial markets. (Disclosure: I was a colleague of Thaler's at Chicago Booth.)

Outside the teaching rooms at Chicago Booth there are a number of large posters of various luminaries and their contributions, including other Nobel Laureates. On his, Thaler perhaps summarised his own approach best. His quotation reads:

"I think it is possible to strengthen economics by incorporating the idea that some people behave like humans, at least some of the time."

Witty, but also deep. And, beginning in the 1980s, Thaler did just that. In a first set of contributions, Thaler showed that people systematically deviate from the standard 'expected utility theory' of von Neumann and Morgenstern that is the workhorse economic model of how people make choices.

Dramatic difference between 'buying' and 'selling' health

A now classic example is the so-called 'endowment effect':

"(a) Assume you have been exposed to a disease which if contracted leads to a quick and painless death within a week. The probability you have the disease is 0.001. What is the maximum you would be willing to pay for a cure?

(b) Suppose volunteers would be needed for research on the above disease. All that would be required is that you expose yourself to a 0.001 chance of contracting the disease. What is the minimum [amount of money] you would require to volunteer for this program? (You would not be allowed to purchase the cure.)"

A typical answer from respondents is about $200 for (a) and $10,000 for (b). Yet the standard model says the answer should be precisely the same. People, it seems, are willing to pay a relatively small amount to 'buy health' compared to what they require to be paid to 'sell health'.

This turns out to be a pervasive phenomenon. Thaler showed it is consistent with people valuing losses and gains differently ('loss aversion') as in the Prospect Theory of former laureate Daniel Kahneman and his collaborator Amos Tversky.

And he showed that firms take advantage of this commercially, as they often frame things as 'cash discounts' rather than 'credit card surcharges'. Moreover, it holds in experiments with real stakes, not simply survey questions.

A recent meta-study showed that in more than 337 estimates in 76 different experiments the willingness to accept is more than triple the willingness to pay.

Implications for financial markets

Thaler's concept of 'mental accounting' holds that people put expenditures into distinct categories (such as food, housing, clothing, etc). This also has strong empirical support, and far-reaching implications. When people behave like this they do not take advantage of the ability to smooth decisions across categories, and they can behave in ways that are not optimal.

One well-documented example is that taxi drivers routinely set a target amount of earnings and stop once they have reached it. This 'satisficing' behaviour – rather than optimising – has broad implications for the labour market generally.

Now, one might think that all these defects in individual decision-making wash out in large markets. Indeed, this was the routine critique of behavioural economics in seminars in the early 2000s. A huge body of scholarship in behavioural finance has shown that this is not the case.

Psychological factors and limits to arbitrage can have huge implications for the operation of financial markets, creating mis-pricing and excess volatility.

Thaler also pioneered the concept of 'social preferences' where people care about fairness. In an elegant experiment – the 'dictator game' – one subject is given $20 and can propose a split with the other subject. If the other accepts the offer then that's what they both get. If they reject, both get nothing. Subjects routinely reject an $18/$2 split – or often even $15/$5 – and prefer to get nothing.

This both contradicts the standard model, and shows that fairness can be a vital consideration in economic settings.

Finally, the self-control problems Thaler documented in other work mean that individuals can benefit from a kind of 'soft paternalism' in everything from quitting smoking to managing their retirement savings.

With *Nudge: Improving Decisions about Health, Wealth, and Happiness* (co-author Cass Sunstein), Thaler has been the driving force behind designing public policy in a way that recognises and remedies this. Default options in retirement savings are a good example.

From the US to Britain and now Australia 'behavioral insights units' have been set up in government to guide public policy in diverse areas on the basis of Thaler's work.

Thaler has enriched our understanding of economics by introducing psychological factors within a coherent and tractable framework. And his work continues to have far-reaching implications for how we get people to make better decisions.

Richard Holden is a Professor of Economics and AGSM Scholar at the UNSW Business School. A version of this article appeared in The Conversation. Cuffelinks is an alliance partner of the Business School.

Housing: balance in our most cyclical sector

David Rumbens and Andrew Ponsonby

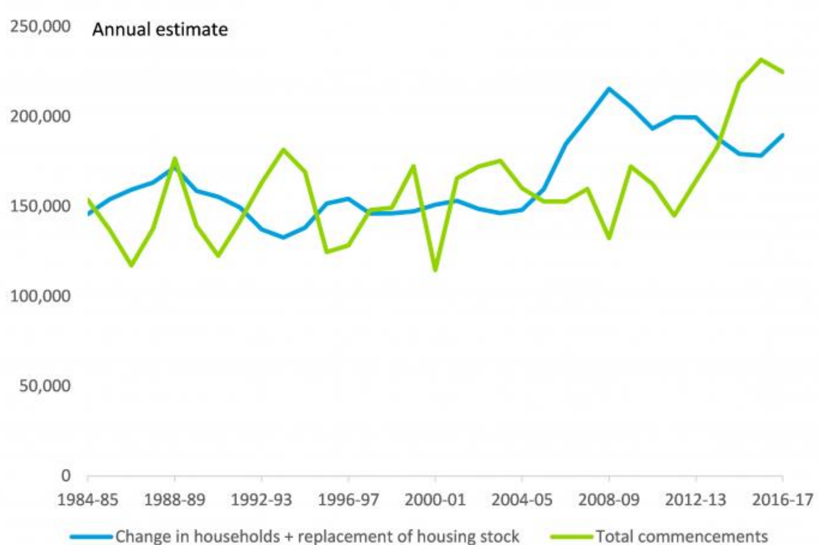
Based on current population growth in Australia, we are building too many houses. However, we are also still catching up on a long period of underbuilding, and with population growth picking up once again, the emerging construction downturn may be more gentle than feared. This article looks at the level of residential building activity against the demand from growth in households, and provides an overall assessment of the market.

The cyclical nature of housing

The housing sector tends to go through periods of overbuilding and underbuilding. We estimate that there was noticeable underbuilding from 2006 to 2013 which helped to fuel recent rapid house price growth. However, since 2014 we have been in a phase where we are building more homes than underlying need would suggest, as shown in the chart below. This growth in dwelling commencements has raised fears of oversupply, particularly in some capital city apartment markets. But overall, Australia's housing market is still characterised by relatively low vacancy rates and positive rental growth.

With an upturn in national population growth and an easing in forward indicators of housing construction based on residential building approvals, the gap between building activity and underlying demand looks set to close.

Dwelling supply and demand in Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

Building activity moderating as growth driver

Residential building approvals peaked in the second half of 2016 and have retreated modestly since. This has been driven largely by a fall in apartment approvals, particularly in the high-rise segment. The fall in residential building approvals likely reflects factors such as tighter developer financing, higher taxes on foreign investors (levied at the state level), fears of oversupply and limited future price growth. This indicates residential building activity, which has been a driver of economic growth, is set to moderate.

Against this moderating supply outlook, population growth has surprised on the upside. Spurred by an increase in net overseas migration, national population growth was over 389,000 over the year ending March 2017 (up from over 343,000 the year to March 2016). This has tempered expectations of an oversupply of housing, although dwelling completions will remain elevated in the short term.

The supply-demand balance has been an important driver of recent strong house price growth, along with low mortgage rates and strong investor interest. CoreLogic's Home Value Index shows price performance varies significantly across the country. Long-time standouts Sydney (+10.5%) and Melbourne (+12.1%) have continued to record robust growth over the year ending September 2017. The relatively affordable Hobart (+14.3%) has seen substantial price growth amid a healthier local economy while the Canberra market (+7.8%) has also been a solid performer. Other markets have been more mixed, with Perth (-2.9%) and Darwin (-4.7%) still experiencing falling prices amid challenging local economic conditions.

More recently however, national price growth looks to have slowed, with CoreLogic's five capital city aggregate up by a more sedate 0.6% over the past quarter, or around 2.5% price growth on an annualised basis. This may reflect a range of factors domestically, such as stretched affordability (particularly in Sydney and Melbourne) in a low wage growth environment, tighter lending standards (and a crackdown on interest-only loans) and increases in mortgage rates by major lenders. It may also reflect an easing in foreign investment, with higher foreign investor taxes (for example, New South Wales' stamp duty surcharge for foreign investors recently increased from 4 to 8%) and a continued clamp down from Chinese authorities on capital flight.

Good prospects for balanced supply and demand

As a result, while there are still many risks in Australia's housing market (and far too much household debt for comfort), the short-term outlook might be more about balance than wild swings – and prices levelling out at a time when housing activity moderates and population growth remains buoyant.

David Rumbens is a Partner and Andrew Ponsonby is a Senior Analyst at [Deloitte Access Economics](). This article is reproduced with permission.

Check pension outcomes when making a will

Noel Whittaker

People's attitudes to money are amazing. They'll spend most of their lives working for it, worrying about it and fighting over it, yet many won't give more than a passing thought to what will happen to it when they die.

Nearly 50% of people die without a will, and most of the remainder seem content to use a DIY job from the local stationery shop, or grab the first free offer they can find.

A good will reduces costs

This is an unfortunate attitude because the cost of having no will, or a badly drawn-up will, is far higher than the legal fees to get it right in the first place. One of the most common mistakes is for a couple receiving Centrelink benefits to leave all their assets to the survivor in the event of the death of one of them. The problem arises because the Centrelink income and assets tests are different for couples and singles.

Let's think about a couple in their early 80s who own their home, as well as a car and personal effects worth $30,000. They also have superannuation, bank accounts and other investments totalling $560,000. As a couple, they are entitled to an aged pension of around $18,500 a year.

If one of them dies, and all assets are left to the survivor, that person will be over the limit for the single pensioner assets test and will lose their pension entirely. That's a double whammy – losing your partner and your pension simultaneously. If the will had left part of the financial assets to their children the survivor would have retained a part-pension.

Preparation goes a long way

As always, the solution to the problem is to prepare for it. Long before death is imminent it is wise to involve the entire family to reach agreement on what assets will be left to individual family members if there are any, or other people or entities if there are no family. In the example above, the couple were both elderly and it would be reasonable to assume that their needs for a large amount of investment capital would be less than they once were.

They certainly can't make gifts now because they would be hit by the Centrelink deprivation rules, but they could frame their wills so that some assets could be left directly to other beneficiaries when one of the partners died.

Suppose this couple had three children, and changed their wills so that $100,000 of investments went to each child on the death of either parent. The outcome changes completely. The assessable assets for the survivor would reduce to $290,000 and instead of losing the entire pension; they would get a small increase! The pension would rise to around $20,300 a year. The survivor would have the pleasure of watching the children

benefit from the legacy, and would retain an unencumbered property, $260,000 of investments and an increase in pension.

Just reflect on that for a moment. If the survivor lives for 10 more years, the value of the pension over that time would be close to a quarter of a million dollars, while the peace of mind that would come from retaining the pension and watching the children enjoy the legacy would be priceless. All for a cost of a few hours and maybe a couple of thousand dollars.

Almost everybody you know will have some story about hassles caused by a badly prepared will, or worse still – no will at all. That's a pity, because it doesn't take much preparation to stop these types of problems before they arise. Just make sure you involve your solicitor, your financial advisor and your accountant when drawing up or reviewing a will, as each is a specialist in a different but very important area.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. See www.noelwhittaker.com.au.

Business model disruption - Part 2

Hamish Douglass

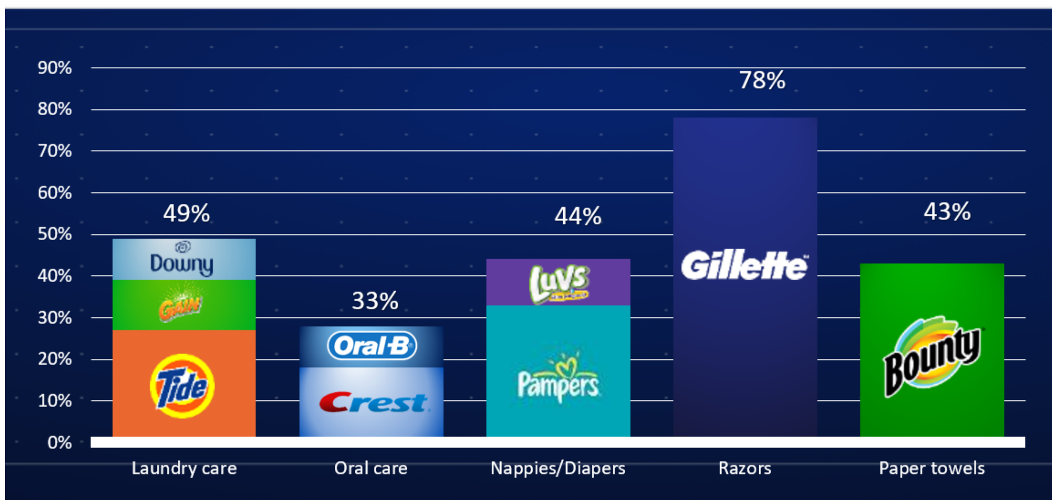
In Part 1 on business disruption, I examined how the advertising and retailing world is changing, driven by new technologies and especially how much Facebook, Google and Amazon know about their clients.

Let's look at the world's largest consumer products company, Procter and Gamble. The goods they sell like Gillette, Olay, Pantene and many of their other products are in our daily lives. P&G is the largest television advertiser in the world, and this is a part of their business model. There are huge barriers to entry into television advertising and you can own a share of mind of consumers. Tide is the largest laundry detergent in the US. P&G needs to convince consumers that when they stain a shirt, Tide is the one that's going to take the stain out, and that's the role of traditional advertising.

Wonderful businesses for 50 years

When you walk into a Walmart store, there are 25 metres of an aisle with the Tide laundry detergents seen on television. It's a massive visual of those products and it receives huge turnover for the supermarket. They win because they are getting the velocity, the advertising businesses get their advertising revenues, and P&G has a business with the most dominant brands in its categories in the US.

P&G - Dominant US brands



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In laundry detergents, adding all P&G's brands, they have 49% of the US market. In oral care, they've got 33%, but it's a duopoly. The other is Colgate, and between the two, they have 80% of the market. We could go through nappies, razors, paper towels, shampoos and other things where dominant companies use traditional forms of advertising and traditional forms of retailing to create high market shares. These businesses have been wonderful businesses to invest in for the last 50 years. Think of Nestle and other big brand-owning companies over the world. And Magellan has owned a lot of these companies in the past as well.

Now let's think about a weekly shop that Amazon's Jeff Bezos has in mind using the Alexa digital assistant. It can order regular items that are running low, but whereas it knows you previously bought Tide washing detergent, Fairy dishwashing tablets and Charmin toilet paper, it can suggest Amazon products to replace these brands. The Alexa platform is already operating in the US. If you ask Alexa to order a battery for your torch, the only batteries it will offer you are Amazon-branded batteries.

It's hugely disruptive when these new technologies affect the brand-owning companies. A company like P&G is not about to go bankrupt, but the future is much less rosy. Their rate of growth will dramatically slow down as they lose volume, and there will be more price competition because the home products will be sold at lower prices and at great quality.

A serious challenge to mean reversion

I'm a quality and value investor, and P&G on average over time has traded at around 20 times earnings. So when P&G trades at 15 times earnings or less, in the past I would have thought, "Well I know they've got dominant brands, I know their business model is robust" and I would probably have bought P&G and then patiently held it. I expected its multiple would probably go back to its long-term average, and I'd earn excess returns. If it was trading at 24 times earnings, I'd know it's probably going to come back to 20 times earnings so I'm probably not going to own it at that point in time.

The mean reversion process of looking at past behaviour which meant buying at 15 times earnings as it is likely to trade at 20 times earnings in the future and deliver excess returns. Now, I seriously challenge whether that's going to work into the future, even when investing in something that's high quality with a robust business.

We're talking about disrupting some of the world's highest quality companies. I'd probably add something like a Bitcoin and other fintechs into the threats that banks need to be thinking about.

So what are some of the experts saying about what's going on with big consumer companies?

Warren Buffett and Charlie Munger on disruption

At the 2016 AGM of Berkshire Hathaway, there was a fascinating interaction between Charlie Munger and Warren Buffett:

Munger: "A lot of great businesses aren't quite so great as they used to be. The packaged good business of the P&G and the company General Mills, they're all weaker than they used to be at their peak, and the auto companies, I mean, when I think of the power of General Motors when I was young and what happened, they wiped out all the shareholders. I would not have predicted that. When I was young, General Motors loomed over the economy like a Colossus. It looked totally invincible. Torrents of cash, torrents of everything and it learned to hold down market share because they were afraid they'd be too monopolistic. Yes, the world changes and we can't make the portfolio change every time something is a little less advantaged than it used to be."

Buffett: "But you have to be alert, thinking all time to whether there's been something that really changes the game in a big way and that's not only true for American Express, that's true for other things we own, including things we own 100% of. And we'll be wrong sometimes. We'll be right sometimes, we'll be wrong sometimes, but we'll be right sometimes too. But it's not that we're not cognisant of threats but assessing the probabilities of those threats being a minor problem or a major problem or a life-threatening problem. You know, it's a tough game but that's what makes our job interesting."

These two are absolutely incredible. Warren's just turned 87 and Charlie's 93. I'd love to be doing this when I'm 87. Warren was saying that assessing the probabilities of these threats is key and you need to then ascertain whether the threat is minor, major or life-threatening, and I think that is really our job. It's easy to get caught up with these changes but you have to think about the probability of some of these changes and over what time frame. A technology like a driverless car, which I think is a very high probability over a 10-15-year period,

it's going to have a life-threatening impact on a lot of automotive manufacturers. People will start sharing car fleets so they don't need to own their own cars.

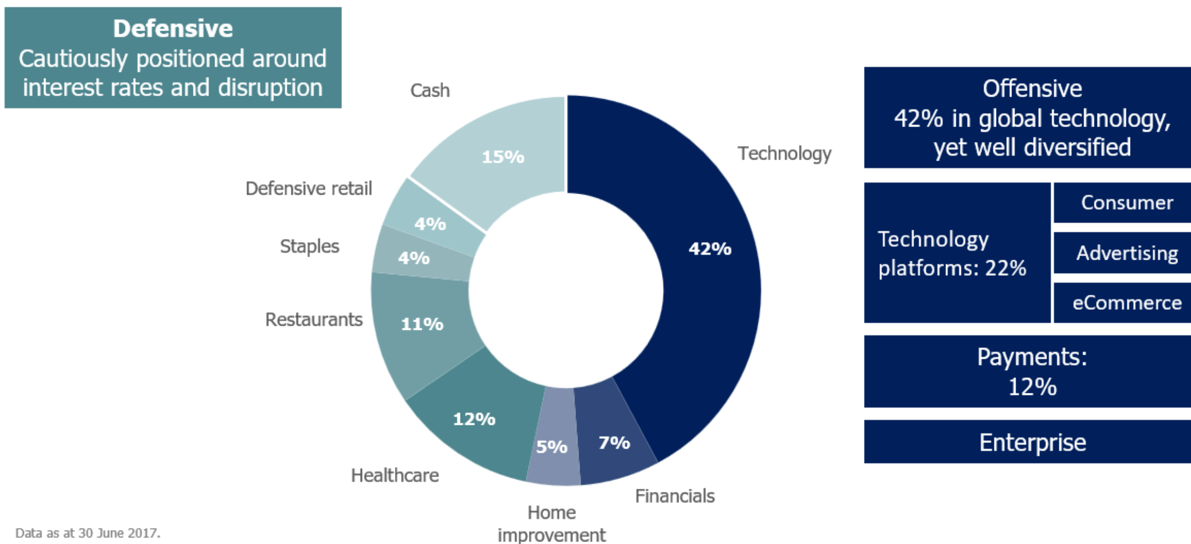
Portfolio positioning in the face of change

P&G will not go completely out of business but new technology will change the value of P&G. The stuff that's starting to happen will have modest impact on a business like that, and I need to reflect that into the valuation.

With technology, we'll have more deflationary effects in the world. If I took a 10-15-year view, I expect a lower long-term interest rate view. Technologies such as AI, new forms of manufacturing, 3D printing, driverless cars – I won't go through them all - could be massively disruptive to the inflation curve. In the next few years, we'll probably have a headwind of rising interest rates, but in the long term, we could have interest rates coming down again. That's exercising a lot of our thinking.

I'll finish with a couple of slides showing how we have positioned the portfolio to meet these challenges, and the particular companies we believe are best-placed.

How are we positioned?



Navigating disruption

Technology winners

Low risk of disruption

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This is an edited version of a presentation by Hamish Douglass, CEO, CIO and Lead Portfolio Manager at Magellan Asset Management, at the Morningstar Individual Investor Conference 2017 on 6 October 2017. Graham Hand attended the event courtesy of Morningstar.

Understanding the retirement income challenge

Aaron Minney

Recent research of over 5,500 senior Australians showed most are aware of their increasing longevity, but there were some surprising findings into retirement expectations. National Seniors Australia (NSA) and Challenger surveyed a broad representation of NSA members. Regular, constant income covering essential needs came out as the major requirement in retirement, but other results were less predictable.

Limited intentional bequests

While Treasury officials might be worried that older Australians are looking to build up a tax-free super nest egg and pass it all onto their kids, that is not the motivation for older Australians. Only 3% of respondents indicated that they intended to preserve all their capital for the next generation. These are probably wealthy older Australians who can afford to live off the income from their assets, rather than having to draw down the capital.

This doesn't necessarily mean that senior Australians have turned stingy. Indeed, the split was roughly even between those leaning towards preserving capital and those looking to spend it down. Only 10% want to spend down everything. In practice, it seems that retirees are not spending it all (at least not yet).

So, what is driving the observed behaviour?

Understanding the implications of longevity

The survey highlighted that most retirees are aware of their increased longevity. 83% reported an awareness of a likely 6-year increase in life expectancy compared to their parents' generation. 49% reported making financial plans for retirement and 47% have plans for medical and health expenses. These are all signs that Australian retirees are aware of the need to manage for longevity.

This awareness could also indicate why they don't think they will be leaving money for the kids. They're not sure that they will be able to afford it.

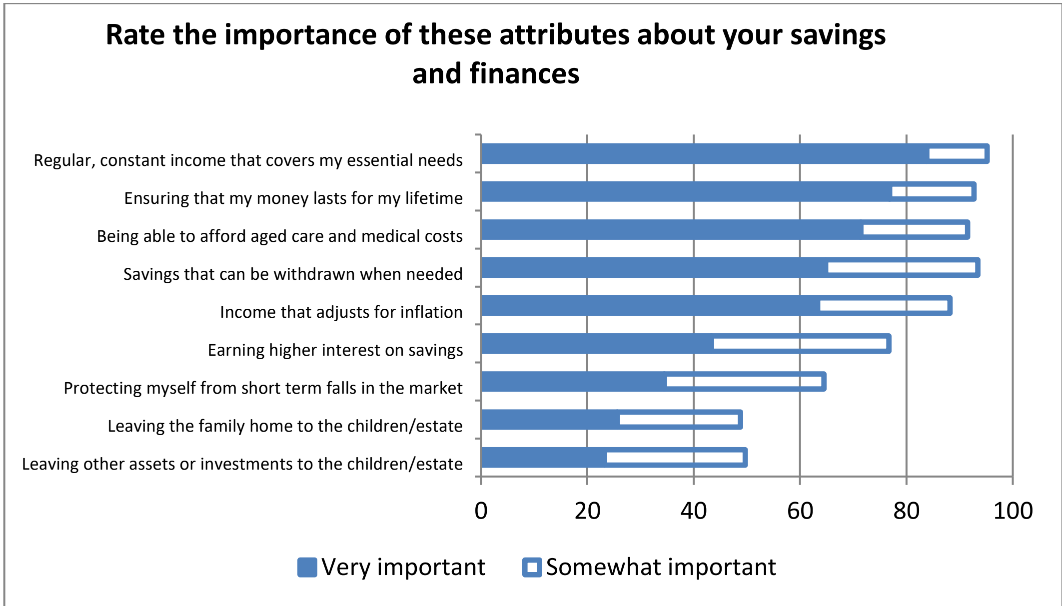
Living longer means that retirees will have to fund their spending for longer and it is probably more that the retirees are looking after themselves first. Only if they don't need it will they leave something for the kids. Comments from individual respondents reflected the theme that kids are in a better place than current retirees, potentially due to the existence of superannuation (i.e. they already have their own retirement savings).

In terms of planning, making sure that they have income for the rest of their lives was a high priority, but it wasn't what they were most concerned about.

Preference for regular income

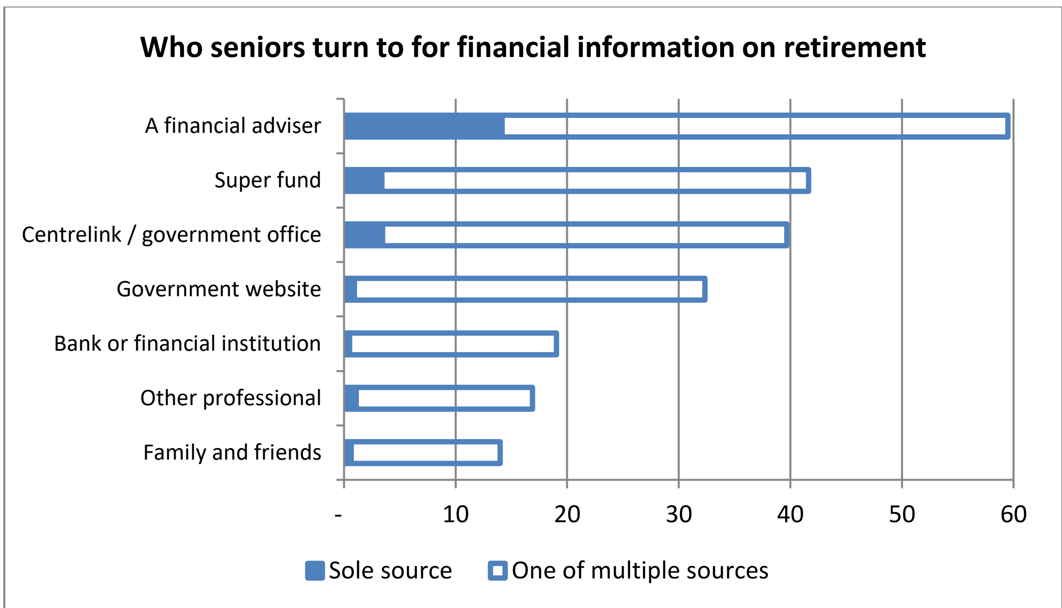
Top billing in this year's survey went to the need for regular income to meet essential needs. A previous survey in 2012 had ranked money for health costs as the top priority, but a broader focus, that includes other essential needs, topped the list this time.

The chart below indicates the key concerns that seniors have around their finances. While lowest ranked, many still consider it important to leave an estate, suggesting it is more about the capability, rather than the intention, that is likely to limit what the average Australian retiree will bequest.



Seeking financial advice

Another element of the report that might surprise was the high number (59%) who reported using a financial adviser. With around 160,000 households retiring every year, this suggests that there are around 100,000 pieces of advice (or information) from advisers about retirement. This might seem a little high, but it includes some limited advice (including general advice). Based on other surveys, it's likely that less than half of them maintain an ongoing relationship.



With a growing number of baby boomers set to retire in the coming years, the demand for quality advice will only increase. With the increase in goals-based advice strategies, the report also gives some pointers about the key goals for retirees.

In summary, beyond the timing of the next overseas trip, the key goals are to generate a regular stream of income to meet essential spending and meet health and aged care costs later in life.

It would be hard to argue an adequate goals-based plan has been developed if it does not include solutions to meet each of these goals for a retiree.

Aaron Minney is Head of Retirement Income Research at [Challenger Limited](). This article is for general educational purposes and does not consider the specific circumstances of any individual.

New role for outcomes test and retirement goals

Maree Pallisco

The Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill 2017 proposes to expand the existing *scale test* of performance against costs for members to an *outcomes test*. This will require superannuation trustees to determine, on an annual basis, whether the fund's MySuper products are meeting the clients' best interests.

Many of these questions apply to SMSF trustees who are managing their own superannuation funds.

The intent of the change is to allow APRA to assess the overall governance and performance of default funds. APRA has advised what needs to be addressed but not 'the how'. Trustees will need to develop their own framework.

Is there a need for the change?

To respond to this question, we need to answer the following two questions:

1 Has the scale test achieved what it was set out to achieve?

2 What should an outcomes test do differently?

Some cynics say the scale test has failed. In the main, the scale test assesses performance and fees, seeking to prove a correlation between these and the size of the fund. However, in this case, size doesn't always matter. Many small funds have proven the test wrong, consistently demonstrating good returns and low fees.

What should an outcomes test do differently?

The focus of the outcomes test is on **sustainability**, which in my opinion is a much better measure of a fund's performance against costs to members. Ultimately its aim is to have funds determine what is in the best interest for their members and test the sustainability of this model.

In reality, most members rely on their employers to make the important decision when it comes to choosing their superannuation fund. But, superannuation is not most employers' core business. So, how are they to know what is in the best interest of their employees? This question will become more important if the proposed changes to default fund status are legislated. Regardless of any new regulatory impositions though, all members should receive what's in their best interest, but many funds, regardless of size, have struggled to define it.

How can a fund define best interest?

Firstly, funds need to *define the most important goals* for the members to achieve. In other words, what outcomes would the funds' members like as a result of their experience with the fund? Each fund has different cohorts of members, so this definition of goals needs to be done at the member level, rather than at an overall fund level.

Funds then need to *collect information* that tells them whether the services, products and experiences offered are having the desired impact on its members. Is the fund making a difference in the lives of the members it serves and does it really know its members? Funds often say "we know our members better than anyone." While this may be true, how does a fund support this bold statement?

The next step is for funds to *define the strategy needed to meet these goals***.** The scale test drove a pattern of including growth in funds' strategies, as there was a fear of not being at scale. Under the new outcomes test, strategies should be about ensuring the fund will continue to be sustainable and achieve the best interests of its members as previously defined. This may not always include growth.

Finally, funds need to *set measurable metrics* to support these goals. This is where funds need to be honest with themselves about future sustainability.

How can a fund test best interest?

There is no single approach to a best interest assessment and APRA has not defined this. Funds will need to develop their own policy and practices, which reflect the specific circumstances of the fund and its members. It should be based on what the fund's members value as far as possible.

How to conduct an outcomes assessment

Funds will need to *evaluate* how well they have achieved the defined goals for their members. Have they delivered what they set out to deliver, keeping in mind the different cohorts of members?

From there, funds should *use the results* to improve the experience. This is where funds may need to make the hard decisions. If goals have not achieved their desired outcome, the fund must understand why and determine the next steps. What can be done to fix it? And, where things have worked, could the fund be doing more?

Can we learn from our global counterparts?

Around the world, regulators are steering in the same direction when it comes to measuring funds' performance against costs to members. However, the UK seems to be the most advanced, with similar thinking and the imposition by the UK Pension Regulator of a legal duty to assess value. The UK schemes are required to carry out an assessment at least annually, that focusing on the value provided by the scheme for the costs paid by members across the preceding year, and the influence this could have on future outcomes for those members.

The UK regulator has also issued an illustrative example to the Pension Schemes, highlighting the areas that need to be captured, considered and assessed in order to assess value properly.

Best interest

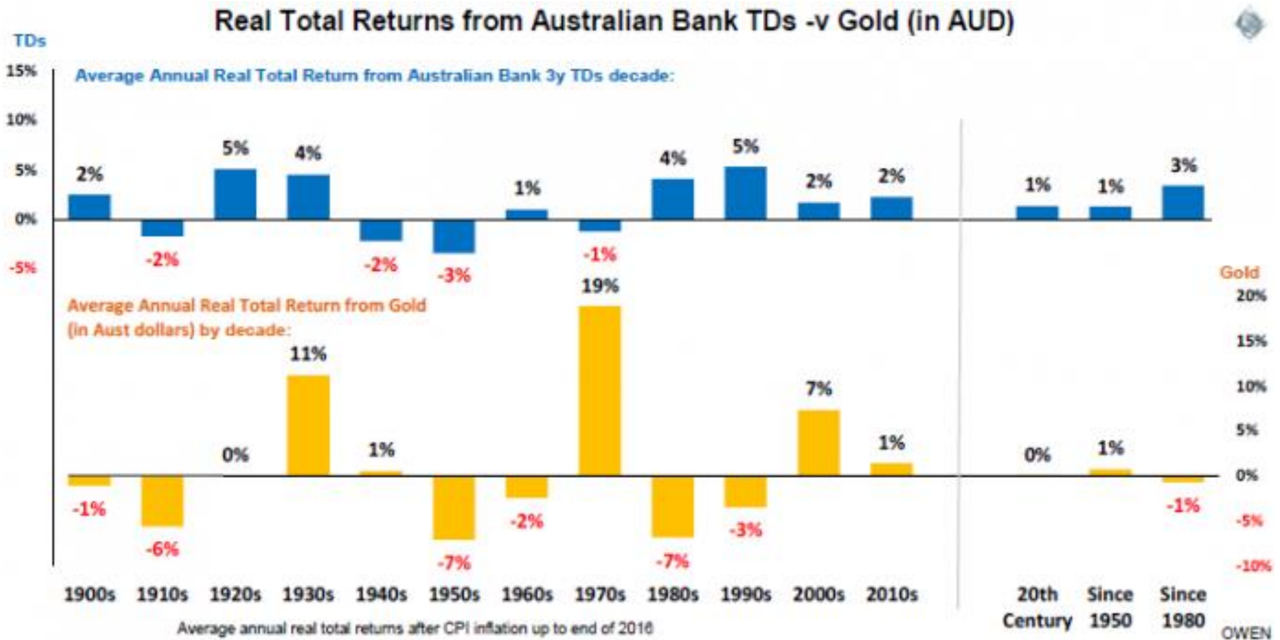
Whatever approach is chosen, one key test has to be met – the best interest test. Funds should document the steps taken and be prepared to demonstrate the execution of a proper process and provide an explanation of how and why conclusions have been reached.

Maree Pallisco is the EY National Superannuation leader. The views expressed in this article are the views of the author, not Ernst & Young. The article provides general information, does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Liability limited by a scheme approved under Professional Standards Legislation.

Are bank deposits and gold safe havens?

Ashley Owen

Last week we looked at Australian shares and bonds as safe havens. This chart shows returns from two other so-called safe havens: bank deposits and gold (in Australian dollars).



The good news is that gold has indeed provided a hedge against inflation and against the long-term decline of the Australian dollar (which is essentially the same thing) over the very long term. It has generated zero real returns after inflation (i.e. a hedge but no actual positive returns), but that's before storage and insurance costs, which eat into returns.

The bad news is that the gold price shoots up once in about every 30 years and then takes the next 30 years to recover its real value (more on this later). That's a long time to wait. But if bought cheap (it is not cheap now) gold can provide an effective hedge (but with zero returns) if you are prepared to wait.

In the meantime, gold has suffered negative real returns for six decades out of the 12 decades since 1900, including seriously bad decade-long losses in the 1910s, 1950s and 1980s. Hardly a 'safe haven'.

Bank deposits have generated very low returns overall, which should be expected since they are virtually risk-free. The last time an Australian bank failed to repay bank depositors was in 1932. The problem is that bank deposits generated negative real returns after inflation for four whole decades – the 1910s, 1940s, 1950s and 1970s. That means steady declines in living standards for several decade-long periods at a time. Hardly a 'safe haven' or 'store of wealth' or a protector of living standards.

With the possibility of war in the headlines lately, the charts show that during both the First and Second World Wars, the so-called safe havens of gold and bank deposits provided no safe havens from decade-long losses.

Gold: another 31 years?

The gold price shot up to US$1,900 per ounce at the height of the US downgrade crisis in late 2011. The usual shrill 'end of the world' panic merchants were excited about buying gold as it was going to go up to US$3,000 or even higher.

Then the gold price collapsed 44% from US$1,900 to US$1,050 by December 2015, forced down by panic selling at the bottom of the oil/gas/steel collapse and the regular 'China slowdown' panic. But the recent mini-recovery to US$1,300 this year with the global 'reflation' scare and the North Korea nuclear threat has people starting to panic-buy gold again.

Panic buying and panic selling is not investing, it is speculating. Gold is a legitimate asset with a place in long-term portfolios from time to time (personally I like gold but I have not owned gold ETFs since selling in 2011).

Here is a chart on the medium-term history of gold prices.

Long term holding of gold makes sense as an inflation hedge only if bought when it is cheap, at or below the long-term value around which it has oscillated for thousands of years. It is well above that now and has been since 2010.

The gold price shoots up rapidly about once in every generation, due mostly to money printing by governments or inflation spikes. It then takes a generation to recover its real value. It has been a neat 31-year cycle from one peak to the next, so people who panic bought in each bubble need to wait another 30+ years for another one.

Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown] and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is general information that does not consider the circumstances of any individual.

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