Australian Shareholders' Association

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Anything interesting happening in the world?

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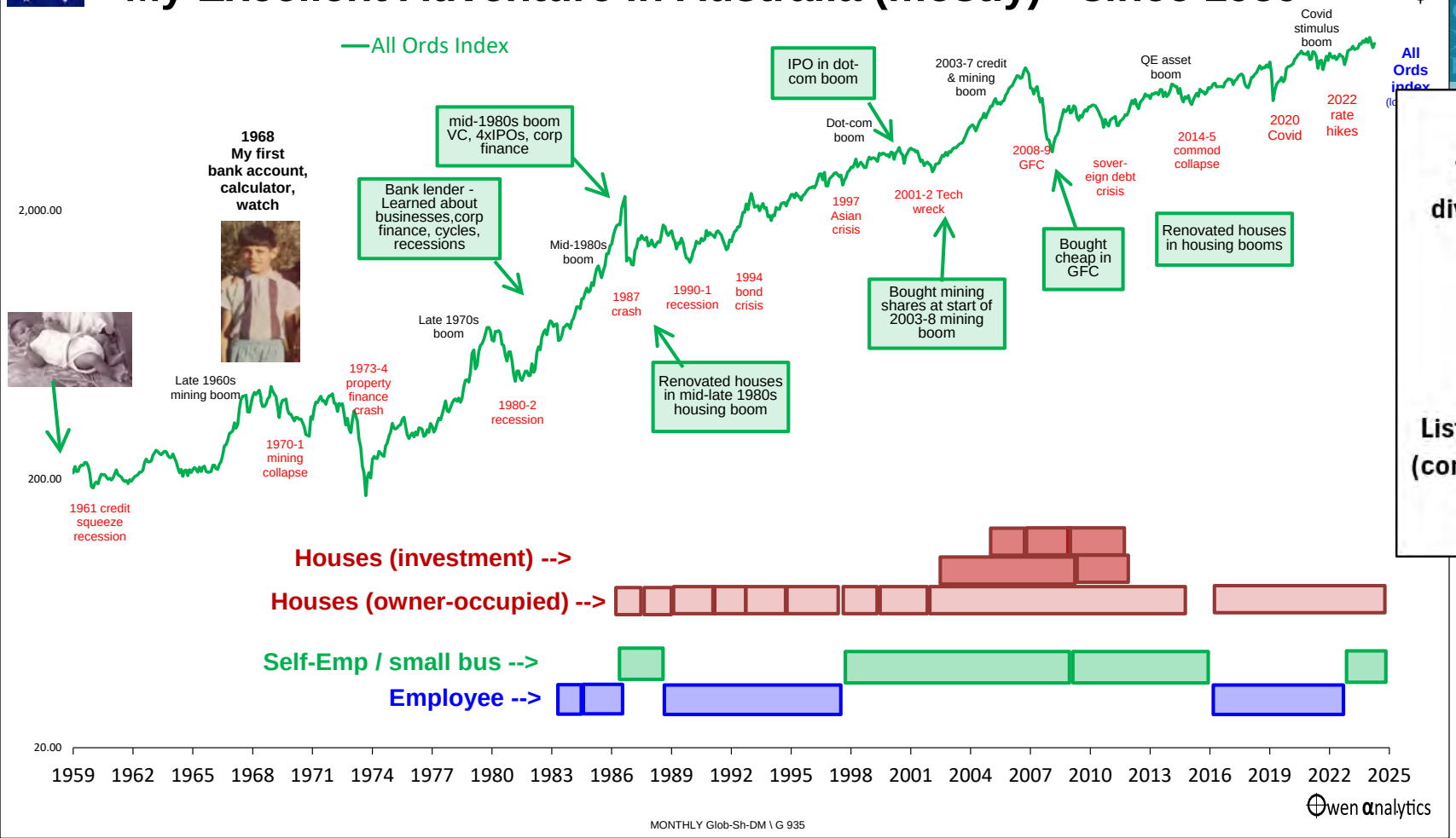
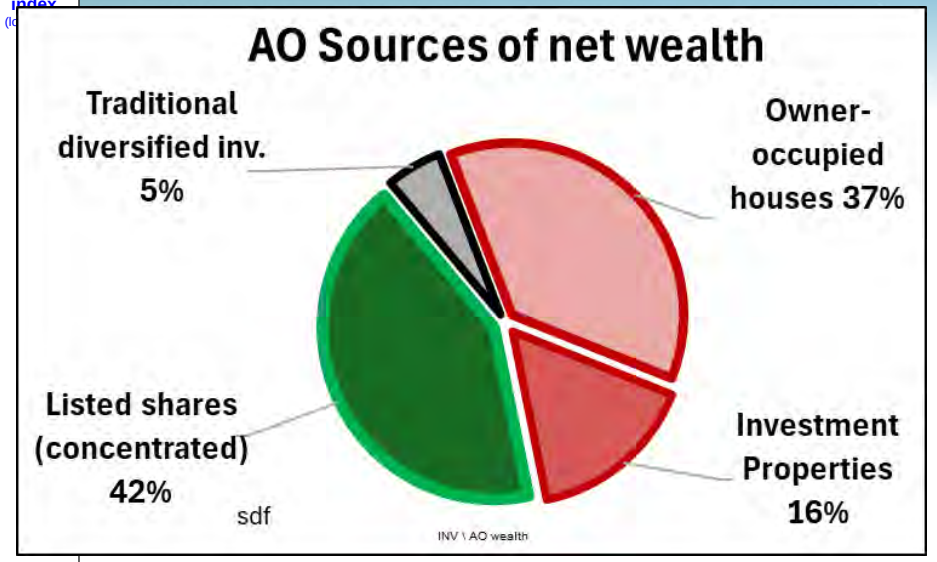
My Excellent Adventure in Australia (mostly) - since 1959

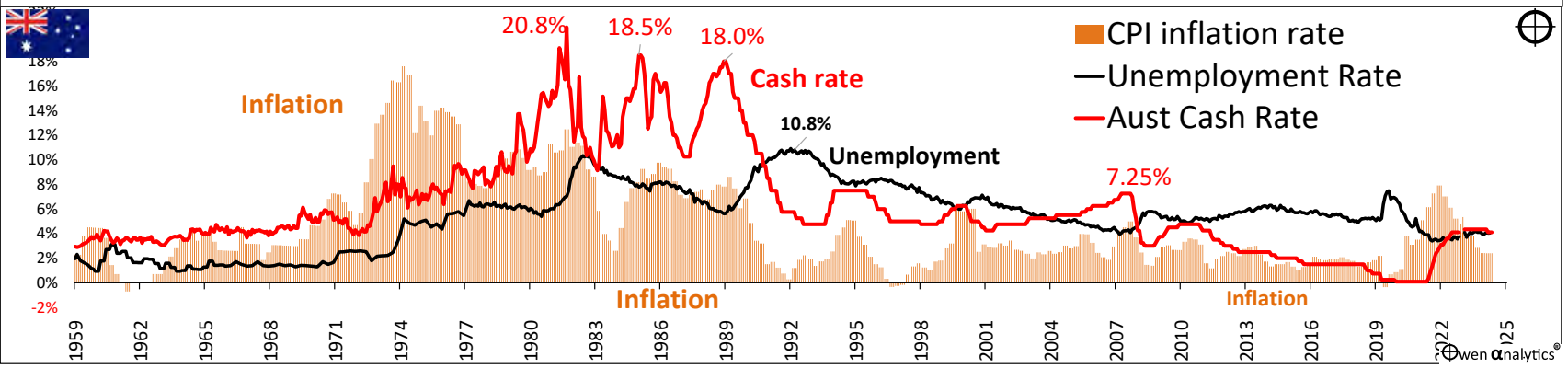




A lot of Luck!

- birth, parents, immigration
- Schools, experiences, travel
- ‘Right place, right time’

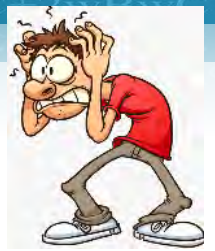
A lot of ‘How hard can it be?’



But:

- Too careful, cautious, analytical
- Didn’t have blind confidence/ego to back myself, don’t like debt

Today we face ‘unprecedented uncertainty’



- Trade wars, geo-political upheaval, political fragmentation, rise of China, protectionism, climate change, Russian aggression, nuclear Iran, inflation, interventionist governments, rising government deficits & debts, rising inequality / intergenerational equity wars / ‘tax the rich’. . .

Today’s session -

- **4 things** about the future we can predict with **100% certainty**
- **4 things** about the future we can be **reasonably certain** about

Plus – you’re going to get Homework!

What we CAN predict about the future with 100% confidence

1: Human Nature – human emotions – Markets will **ALWAYS lurch** –

- **from over-priced booms (over-confidence – FOMO)**

- **To over-sold busts (over-pessimistic fear – FOLE)**

Learning to understand and manage your **Emotions**

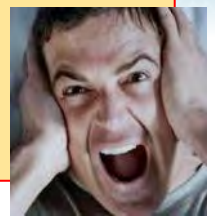
is **THE most important determinant** of your future wealth

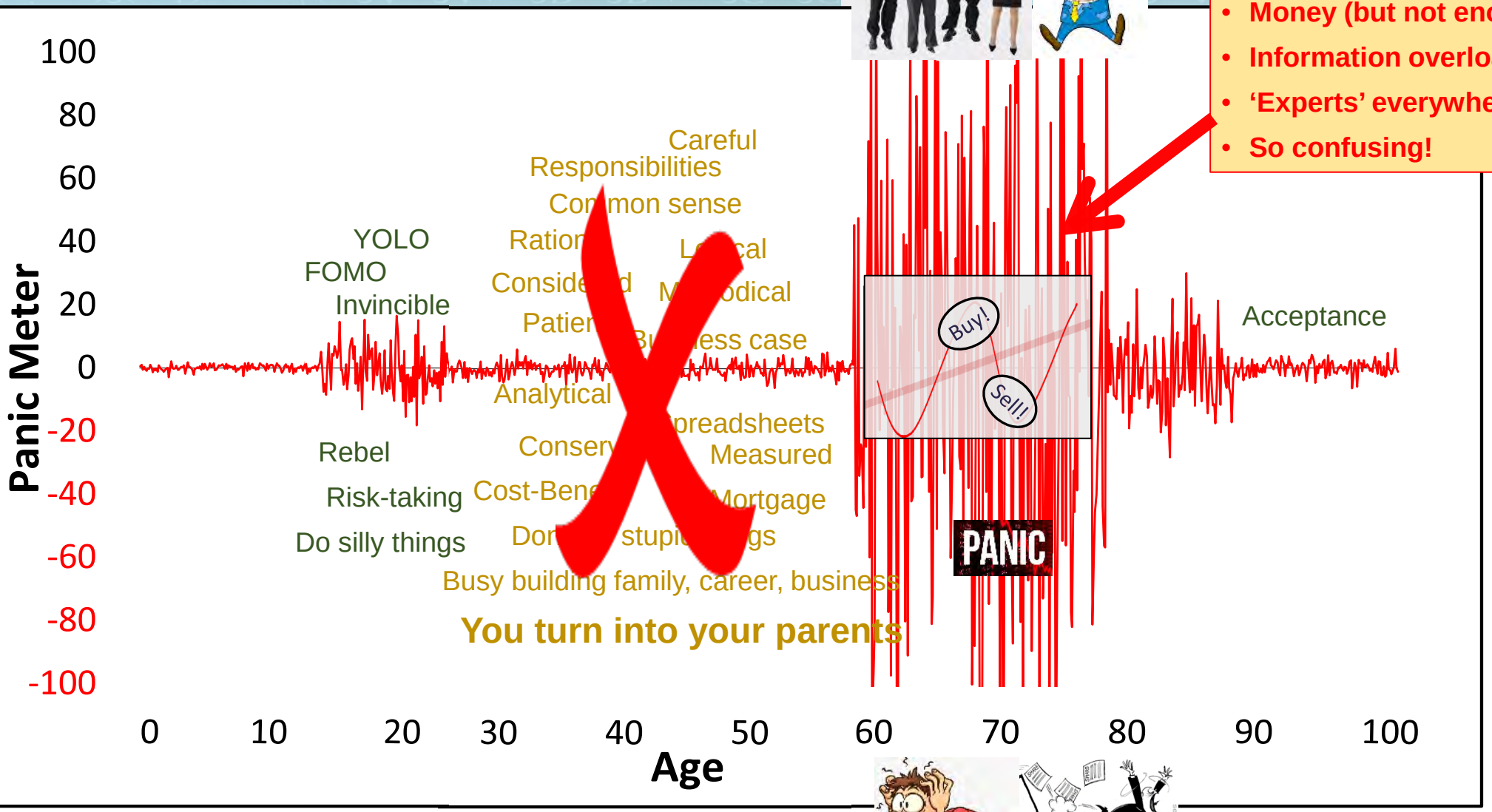
It's Not '***the market***', or '***the economy***', or ***Trump***!

Panic / risk-taking meter/ECG:

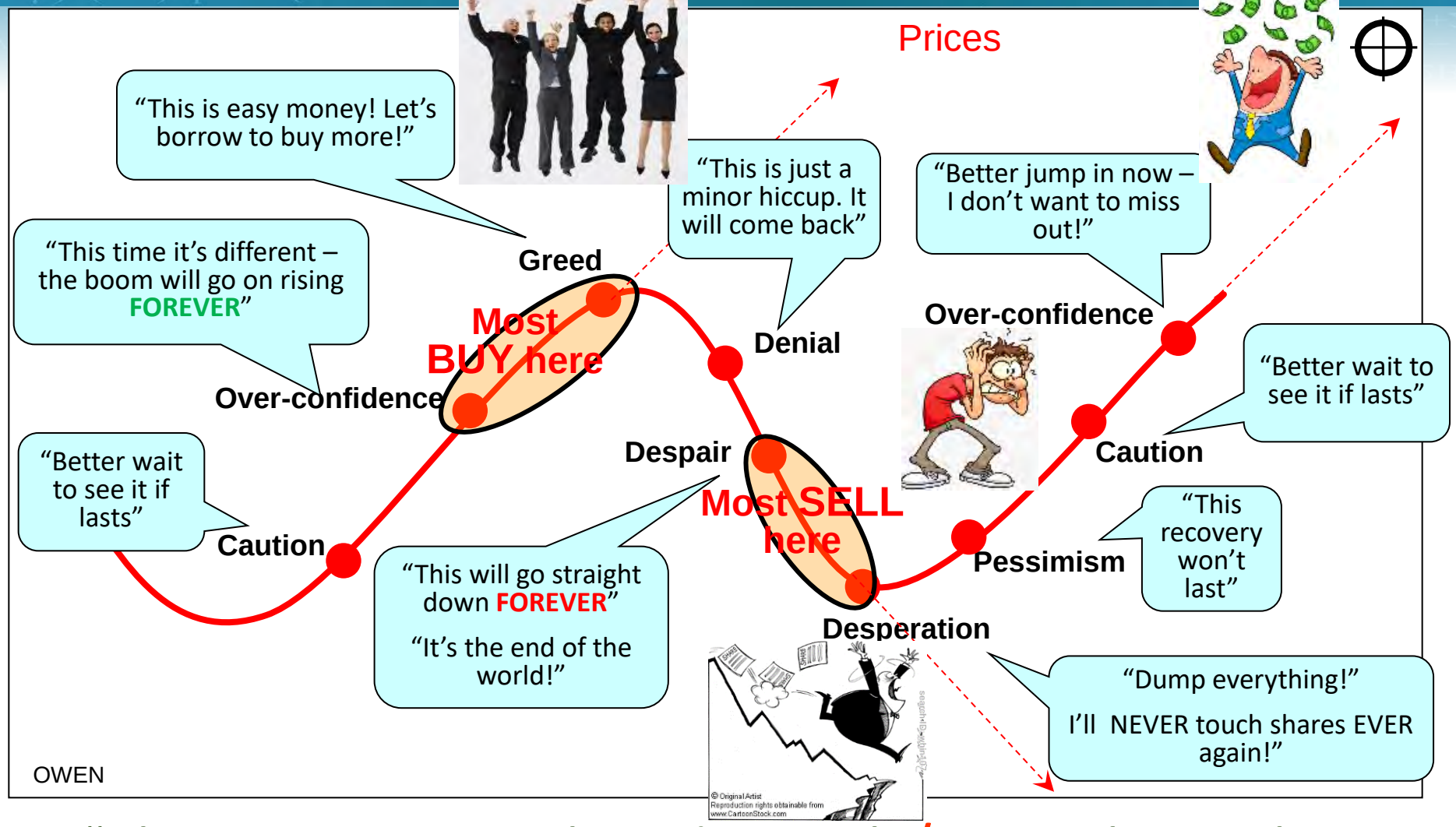
BUT Then Suddenly -

- **Time on your hands**
- **Money (but not enough!)**
- **Information overload**
- **'Experts' everywhere!**
- **So confusing!**





The ‘fear & greed’ cycle (Investor Psychology 101)



*“The way most people end up with **$1m** in the markets. . .*

*. . . . . is to start with **$2m** !”*

Pop quiz!

How many agree with Warren Buffett: (Berkshire Hathaway shareholder letter, 1986)

- ‘Be **fearful** when others are **greedy**, and **greedy** when others are **fearful**’

How many **sold** over-priced shares in late 2024 – early 2025?

How many **bought** shares in their target companies in early April when the whole world was **fearful** (and prices were down ~20%) ?

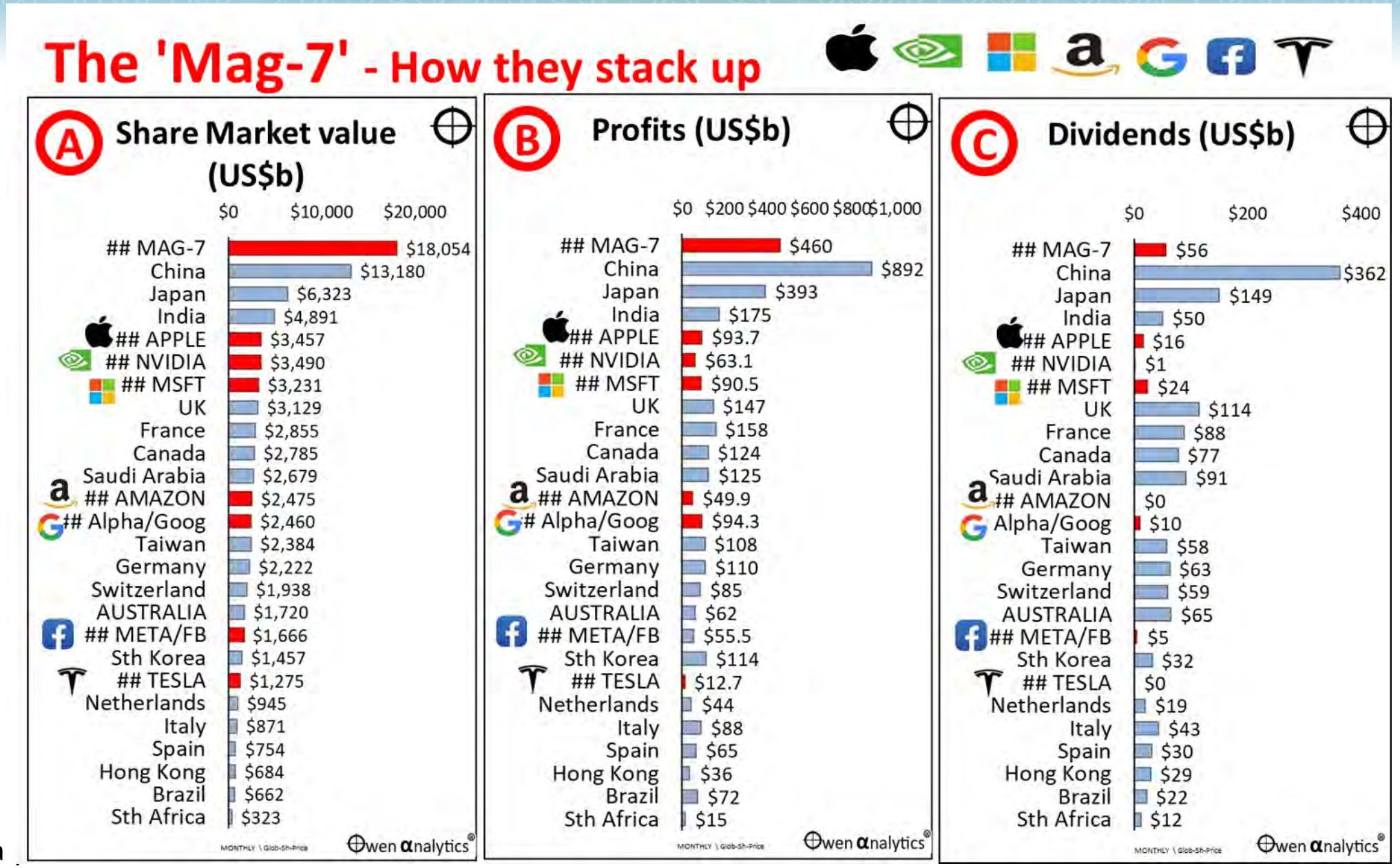
Lessons:

- Spend the **boom** times **researching** great companies/assets to buy
- Then you will be **ready** to buy when prices are **down** (in broad sell-offs)

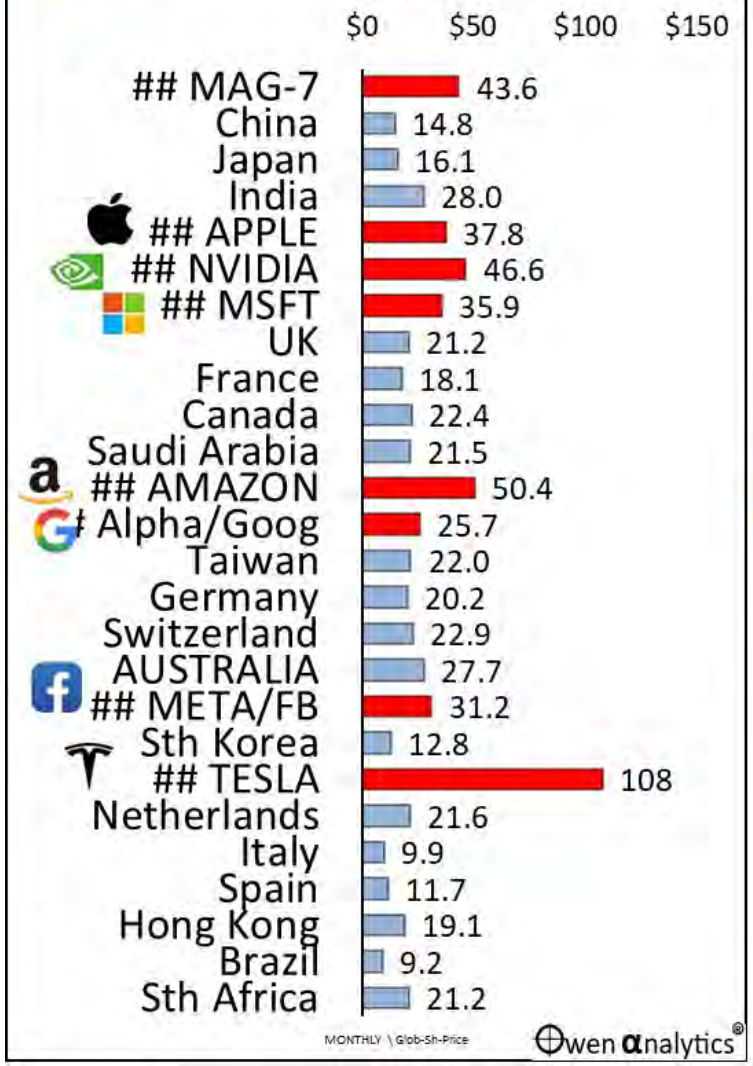
Homework!

- Do you have a ‘**buy list**’ with ‘buy prices’ (waiting for a sell-off) ?

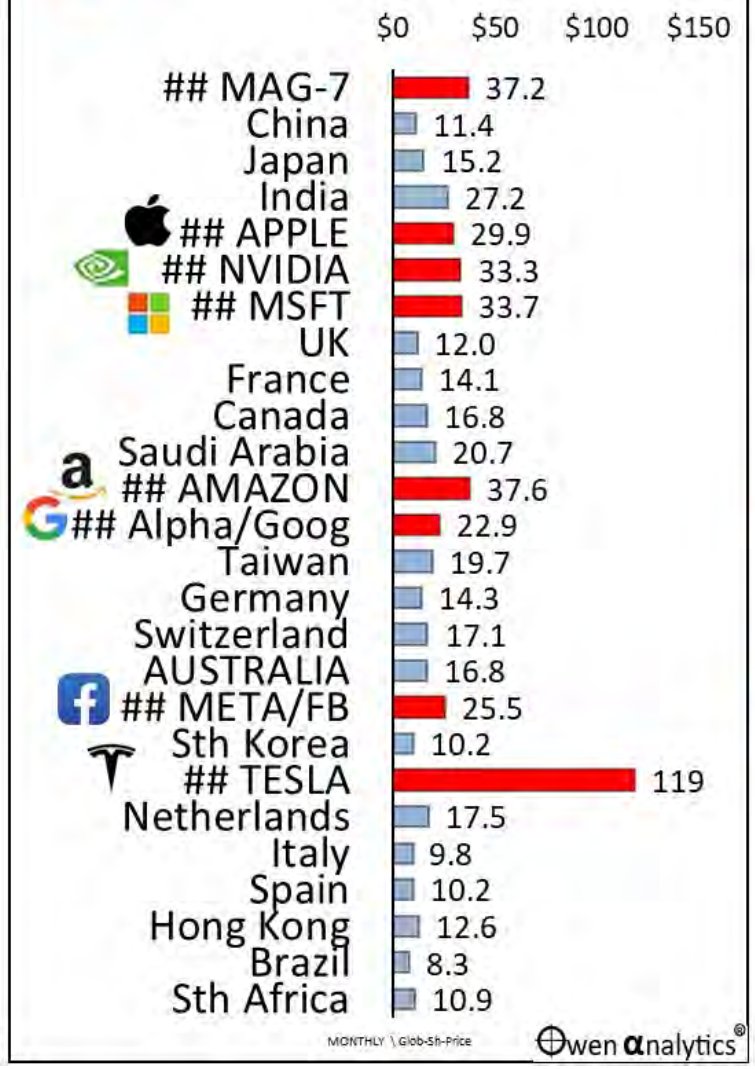
My story on 28 Jan 2025



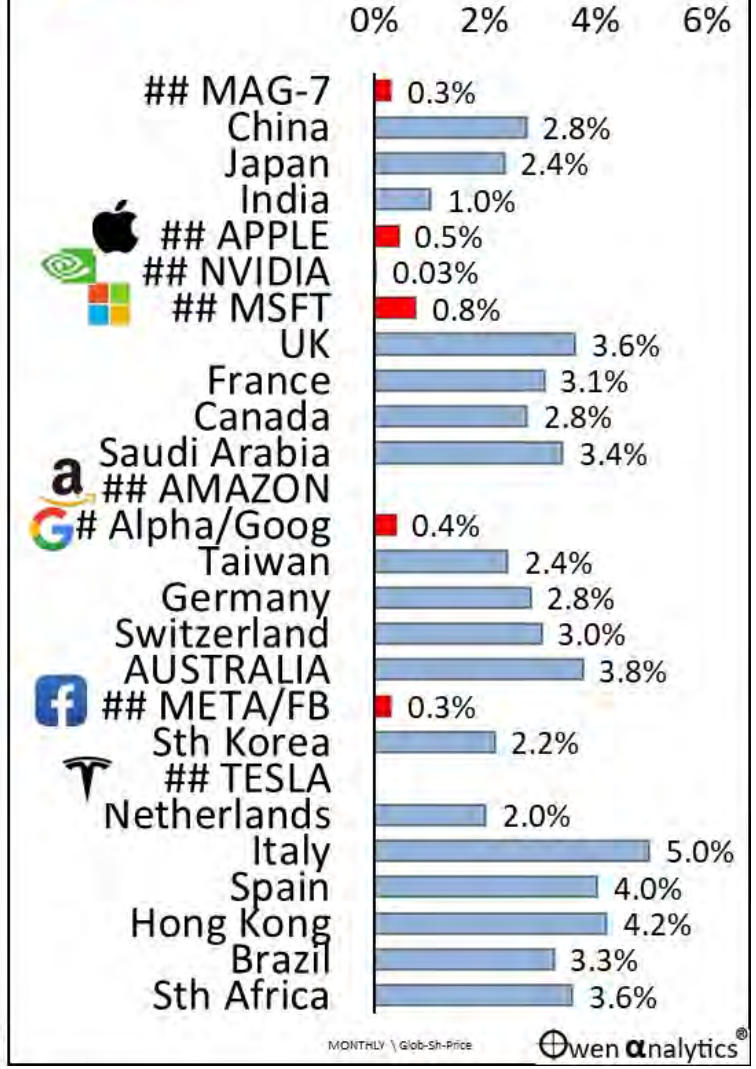
D Trailing Price/Earnings Ratio



E Forward Price/Earnings Ratio



F Dividend Yield



It is almost impossible to convince people to go against the Herd: - BUT

- In a **BOOM** – if you can't bring yourself to sell – at least:
  - don't **panic buy, chase fads, follow the herd**
  - don't **gear up**
  - **Instead – work on your Buy List**

- In a **BUST** – if you can't find the courage to buy:
  - at least don't **panic sell**
  - or be **sold up** by margin lenders

Ignore volatility & temporary setbacks

- Every year (or month, or day) there are always good (scary) reasons NOT to invest
- Here are **125 reasons NOT to invest** (every year since 1900)

125 'Reasons NOT to Invest'

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Total returns from shares - Australia -v- USA - since 1900

Real Total Returns

Aust Real Total Returns in AUD after Aust inflation

US Real Total Returns in USD after US inflation

US Shares

Aust Shares

$100,000

log scale

$10,000

$1,000

$100

$100 at start of 1900

$10

1900 Aust sends troops to China to fight Boxer Rebellion, Gold standard deflationary
1901 Queen Victoria dies, severe drought in Aust, share market falls in Aust, US, UK
1902 end of Boer War, drought in Aust kills 34 million sheep (one third of total flock)
1903 US stock market crash, Panama revolution, fight for canal
1904 Russia-Japan war, anti-trust attack on JP Morgan's Northern Securities
1905 Inflation returns in Aust Japan defeats Russia, 1st Asian power to defeat a European power
1906 San Francisco earthquake, severe drought in Australia, rising US inflation
1907 US 'Panic of 1907' stock market crash, anti-trust attacks on oil cartel, Russian ships threaten Aust
1908 US inflation back
1909 BHP violent strikes & lockouts, price collapses for Aust lead, silver, zinc, tax hikes in Britain
1910 Mexican revolution, falls in US stock markets, deflation
1911 Agadir crisis accelerates Germany-Britain naval build-ups
1912 Titanic sinks, Sun Yat-Sen outs last emperor of China
1913 Balkan Wars, lead-up to WW1
1914 Start of WW1, total 15-22 million dead, including 6-13 million civilians
1915 Violence & gun fights between BHP managers and workers, start of high inflation in US, Aust
1916 defeat at Gallipoli, German defeats against France & Britain
1917 Aust War Precautions Regs limit private spending, US drawn into WW1, Russian revolution
1918 'Spanish Flu' pandemic infects 500 million, kills 40-50 million, US inflation 20%
1919 Versailles Treaty punishes Germany, BHP loses to workers, and winds down mining
1920 US prohibition starts, US/Aust inflation 20+%, shares down, Aust recession
1921 US/Aust deflation -10%, US recession
1922 Aust steel shutdowns, Irish Civil War, Stalin starts USSR, Mussolini seizes power in Italy
1923 BHP first loss, France invades Germany, occupies Ruhr, German hyper-inflation, Harding dies
1924 BHP wins union battle, Saud captures Mecca, creates Saudi Arabia, US cuts rates to help Britain
1925 Hitler publishes Mein Kampf, US rate hike scares market, which scares Fed into cutting
1926 Aust recession, general strike in Britain, US rate cuts fuel bubble
1927 Aust bond issues fail in London, fears of default, US deflation, recession
1928 Wool/wheat prices collapse, Aust global bond market, US deflation, rate hikes, Aust recession
1929 Hatry UK fraud, October 1929 crash, led into Great Depression
1930 Global trade collapse, Smoot-Hawley Tariffs (US), Scullin Tariffs (Aust)
1931 Australia debt default/restructure, Creditanstalt collapse triggers global bank crisis
1932 Aust defaults on NSW debt, Lang dismissal, Dow down 89% from 1929 peak
1933 US bank closures, 25%+ unemployment, Hitler wins election & begins Third Reich
1934 Depression, US dollar devaluated 41% against gold, wool prices halve
1935 Hitler starts re-armament
1936 Spanish Civil War, Aust-US-Japan import restrictions war
1937 US Recession, takes hikes, Sino-Japanese war
1938 War clouds gather German invasions across Europe, Franco dictatorship
1939 War in Europe, Australia recession
1940 Hitler on rampage, fall of France
1941 Japan bombs Pearl Harbour
1942 Fall of Singapore, Japanese bomb Darwin, North Australia, Sydney harbour
1943 Germans advance in Europe, Japanese advance in Pacific
1944 Consumer Goods Shortages, D-Day Normandy landing, Soviets push back Germany
1945 Post-war Recession Predicted Roosevelt dies, Germany & Japan surrender
1946 Dow Tops 200 - Market Too High Post-war hyper-inflation
1947 Cold War Begins; Aust govt tries to nationalise all Australian banks, US 20% inflation
1948 Berlin Blockade & partition of Germany, national coal strike in Aust, US recession
1949 Russia Explodes A-Bomb, Communist victory in China, Aust emergency IMF loan
1950 Korean War; Aust gov tries to ban Communist Party, Aust emergency World Bank loan
1951 Excess Profits Tax, Aust 25% inflation, takes hikes & recession
1952 US Seizes Steel Mills, US tests H-bombs, Britain tests A-bomb, In Aust, Aust recession
1953 Russia Explodes H-Bomb, East German Uprising, Cuban revolution, US-Aust recession
1954 Dow Tops 300 - Market Too High, Petrov defection sparks Aust-Soviet crisis
1955 Eisenhower Illness, Aust sends troops to Malaysia – communist uprising
1956 Suez Crisis, UK/France forced to retreat, end of British power, Aust tax hikes
1957 Russia Launches Sputnik, Britain starts nuclear bomb testing at Maralinga
1958 US Recession, China's Great Leap Forward
1959 Castro Seizes Power in Cuba, US rate hikes
1960 Russia Downs U-2 Plane, Aust rate hikes + tax hikes to slow credit boom
1961 Berlin Wall Erected, US failed Bay of Pigs invasion, Aust recession
1962 Cuban Missile Crisis, Aust sends first troops to Vietnam
1963 Kennedy backs Duong Van "Big" Minh starting Vietnam War, Kennedy Assassinated
1964 US starts rate hikes, Gulf of Tonkin incident draws US into war
1965 Civil Rights Marches, start of US (+Aust) ground forces in Vietnam
1966 Vietnam War Escalates, inflation rising
1967 Newark Race Riots, PM Harold Holt drowns, Israel 6-Day War
1968 USS Pueblo Seized; Paris riots, Martin Luther King & Robert Kennedy assassinated
1969 Money Tightens – US Markets Fall, Sino-Soviet border war
1970 Cambodia Invaded - Vietnam War Spreads, Aust mining bubble busts, US recession
1971 Nixon takes US dollar off gold, Wage Price Freeze,
1972 Largest U.S. Trade Deficit Ever, Watergate scandal, Aust recession
1973 Yom Kippur Energy Crisis, Aust credit squeeze, Britain enters ECM, ends trade deal with Aust
1974 Steepest Market Drop since 1930s, property finance crash, Nixon resigns
1975 Recessions, US retreat from Vietnam, Whitlam dismissal crisis, recessions
1976 Economic Recovery Slows, Sterling collapse, IMF bailout
1977 Market slumps, cash rates peak at 9.67% in Aust, rising in US, Aust recession
1978 Interest rates rise, Sydney Hilton bombing
1979 Oil Prices Skyrocket after Tehran hostage crisis, USSR invades Afghanistan, Volcker rate hikes
1980 Interest rates at all-time high, gold price spibe, start of Iran-Iraq war
1981 Volker keeps raising rates, steep recession begins
1982 Worst Recession in 40 Years, Aust cash rate 20%+, Mexican default, Falklands War
1983 Market Hits New Highs, US-China trade war, US-Soviet sours, US embassy Beirut bombing
1984 Record Federal Deficits Continental Illinois bail-out
1985 Economic Growth Slows, US-Aust rate hikes, Plaza Accord to bring down USD
1986 Dow Nears 2000, 'Banana Republic' current account & AUD crisis, Aust credit downgrade
1987 Record Setting Market Decline October 1987 crash, US-German-Japan currency war
1988 Election Year, collapse of Rothwells, Equiticorp collapses, US shoots down Iranian passenger jet
1989 October Mini-Crash, fall of Berlin Wall, Qintex, Bond collapses, junk bond market collapses
1990 Persian Gulf Crisis, 20%+ rates, recessions, Estate Mortgage, Pyramid, 1990-1 recessions
1991 Global recession, US-Iraq War ('Desert Storm'), Gorbachev sacked
1992 Westpac & ANZ losses, Siege of Sarajevo, Pound crisis,
1993 Metallgesellschaft oil futures trading losses
1994 Fed Raises Interest Rates SIX Times, bond, hedge fund & local govt bond losses
1995 Dow Tops 5000 Kobe earthquake, Barings collapse, Russian bank panic, US gov shutdown
1996 Dow Tops 6000, Howard election triggers wages outbreak fears + budget cuts
1997 Hong Kong handed over to China, Asian currency crisis, IMF bailouts
1998 Russian default, Long Term Capital Management collapse
1999 NASDAQ Index doubles in a year, Fed starts rate hikes, Kosovo War
2000 Tech stocks crash, cash rates hikes peak at 6.5% in US, 6.25% in Aust
2001 Sep 11 bombings, Enron, HIH, Ansett collapses, Argentina default
2002 'Tech-Wreck', WorldCom bankruptcy, NewsCorp losses
2003 'War on Terror', US/allies invade Iraq
2004 US starts rate hikes, Aust housing slowdown
2005 US rate hikes, Hurricane Katrina hits New Orleans
2006 RBA & US rate hikes, US house prices crash
2007 Sub-prime collapses in US, Fincorp, Aust Capital Reserve collapses
2008 Global Financial Crisis, bank collapses/bail-outs
2009 Iceland, Dubai defaults, TimberCorp, Great Southern, Babcock & Brown collapses
2010 European bank runs, Greece debt crisis, May 'Flash Crash'
2011 Fukushima tsunami, nuclear meltdown, US credit downgrade & debt ceiling crisis
2012 Recessions in Europe after premature rate hikes
2013 Cyprus banking collapses, US QE 'taper tantrum'
2014 Russia invades/annexes Crimea, negative cash rates in Europe
2015 Commodities collapses, oil/gas/steel bankruptcies, Fed starts rate hikes
2016 Japan negative cash rates, 'Brexit' vote, Trump election
2017 North Korea missiles, US starts 'quantitative tightening, UK starts rate hikes
2018 Trump starts trade war with China, US rate hikes trigger recession fears + global sell-off
2019 US-China tariff war escalates, China trade sanctions on Australia,
2020 Covid-19 shutdowns, deepest recessions since Great Depression
2021 Runaway inflation globally, governments run up huge deficits and debts
2022 Russia invades Ukraine, central banks start aggressive rate hikes, inflation peaks
2023 Fear of recessions, A.I. destroying humanity, debt crises, Israel-Palestine war
2024 Escalating wars in Middle-East, Ukraine, 'sticky' inflation, fears of US/global recessions
2025 Trump's tariff hikes, mass deportations, deficit/debt blow-out, Trump appeasing Putin, Xi

Severe drought in Aust
US 'Panic of 1907'
WW-1
1920-1 inflation, recessions
1929-31 crash
1930s depression
WW-2
1951-2 inflation, recession
1956 Suez crisis
1960-1 recession
Cuban missile crisis
1970 mining collapse
1974-5 recession
1980-2 recession
1987 crash
1990-1 recession
2001-2 tech wreck
2008-9 Sub-prime + GFC
2010-11 soverign debt crises
2020 Covid recessions
2022-3 inflation + rate hikes

1900 1905 1910 1915 1920 1925 1930 1935 1940 1945 1950 1955 1960 1965 1970 1975 1980 1985 1990 1995 2000 2005 2010 2015 2020 2025

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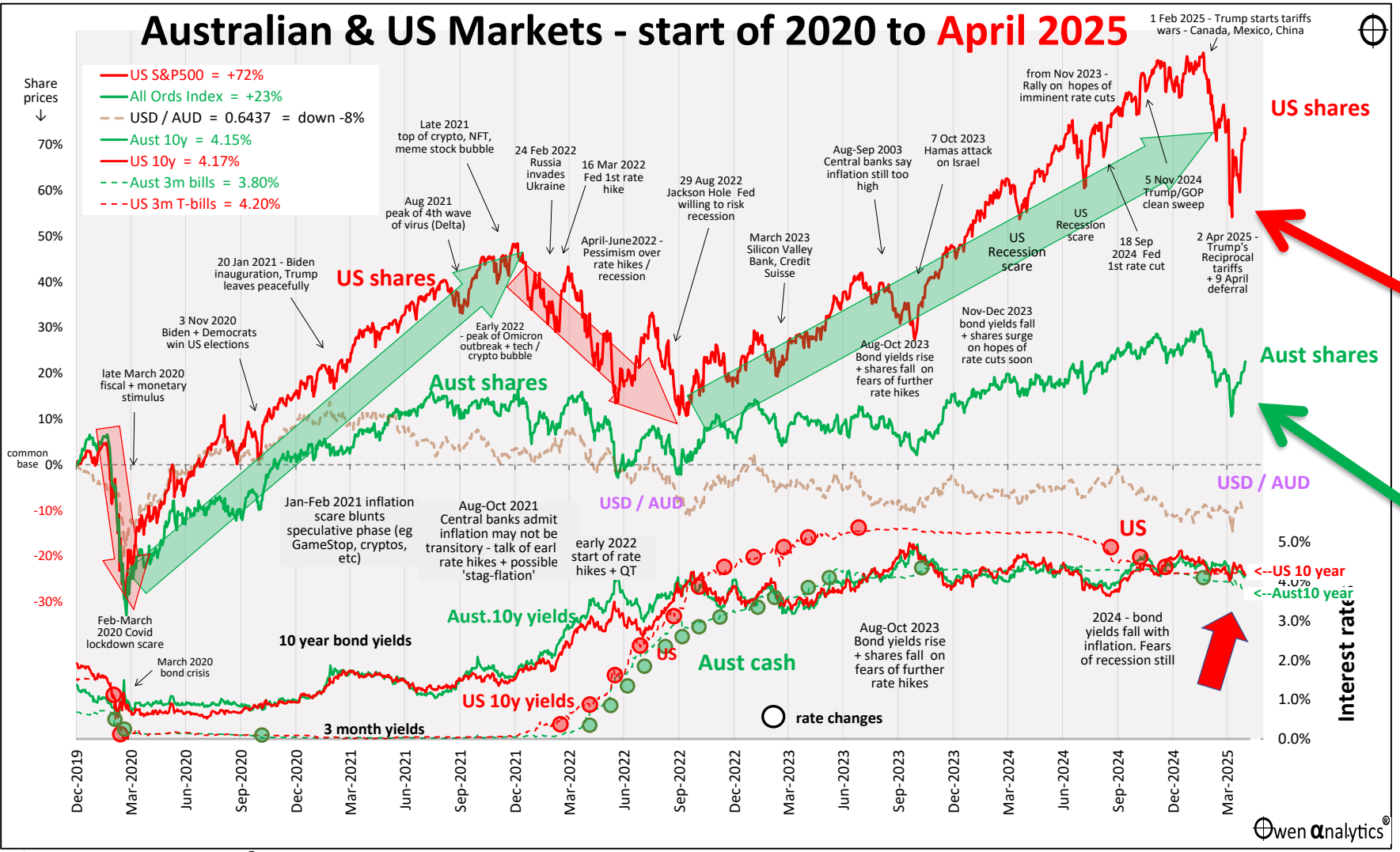
Share markets – is this the 'big one'?



Falls in the past 5 years:

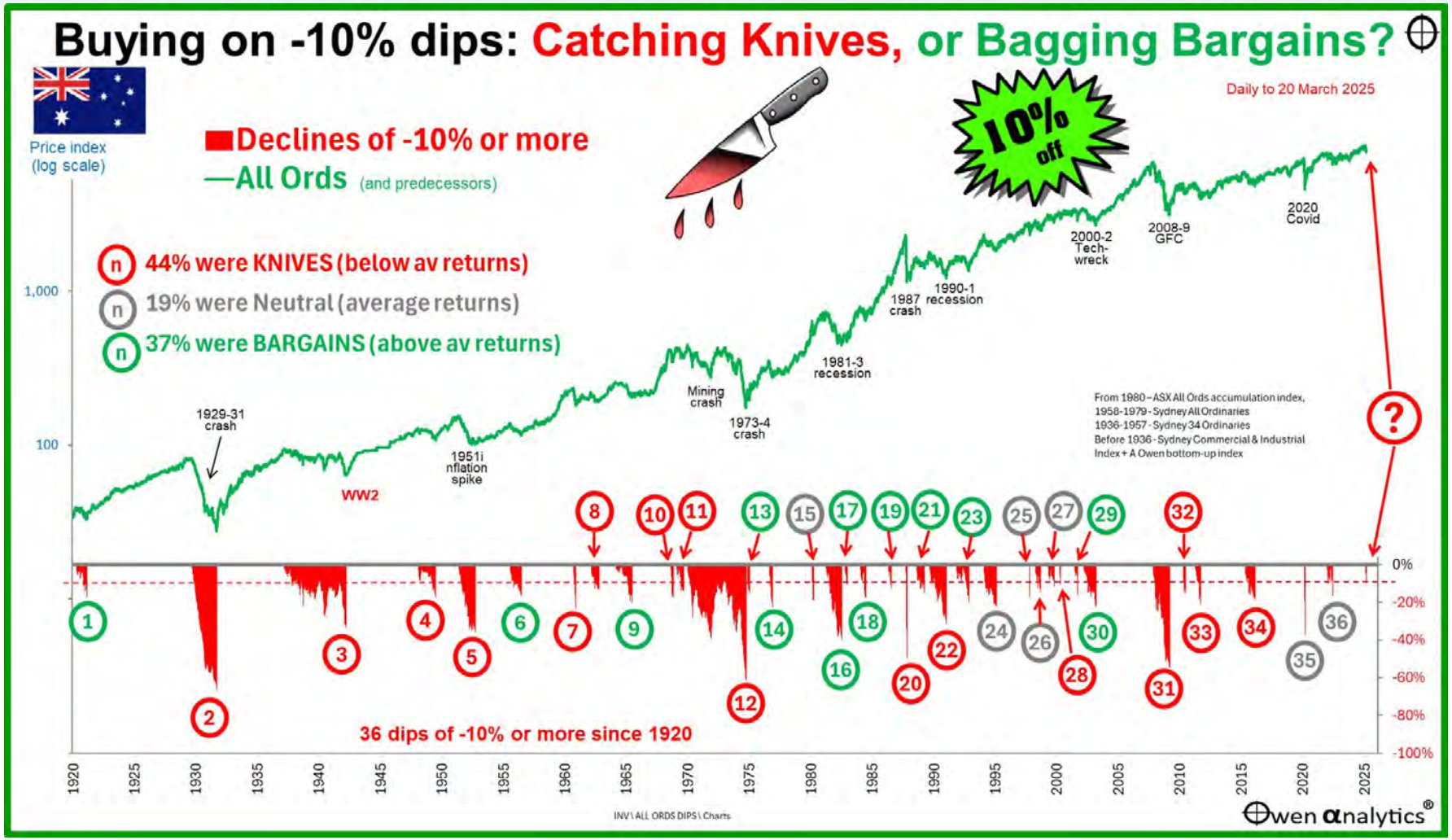
US (S&P500):

- Fell -33.9% in Feb-March 2020 Covid
- Fell -25.4% in 2022 inflation/rate hikes
- Fell -18.9% (19 Feb to 8 April)

Australia (All Ords):

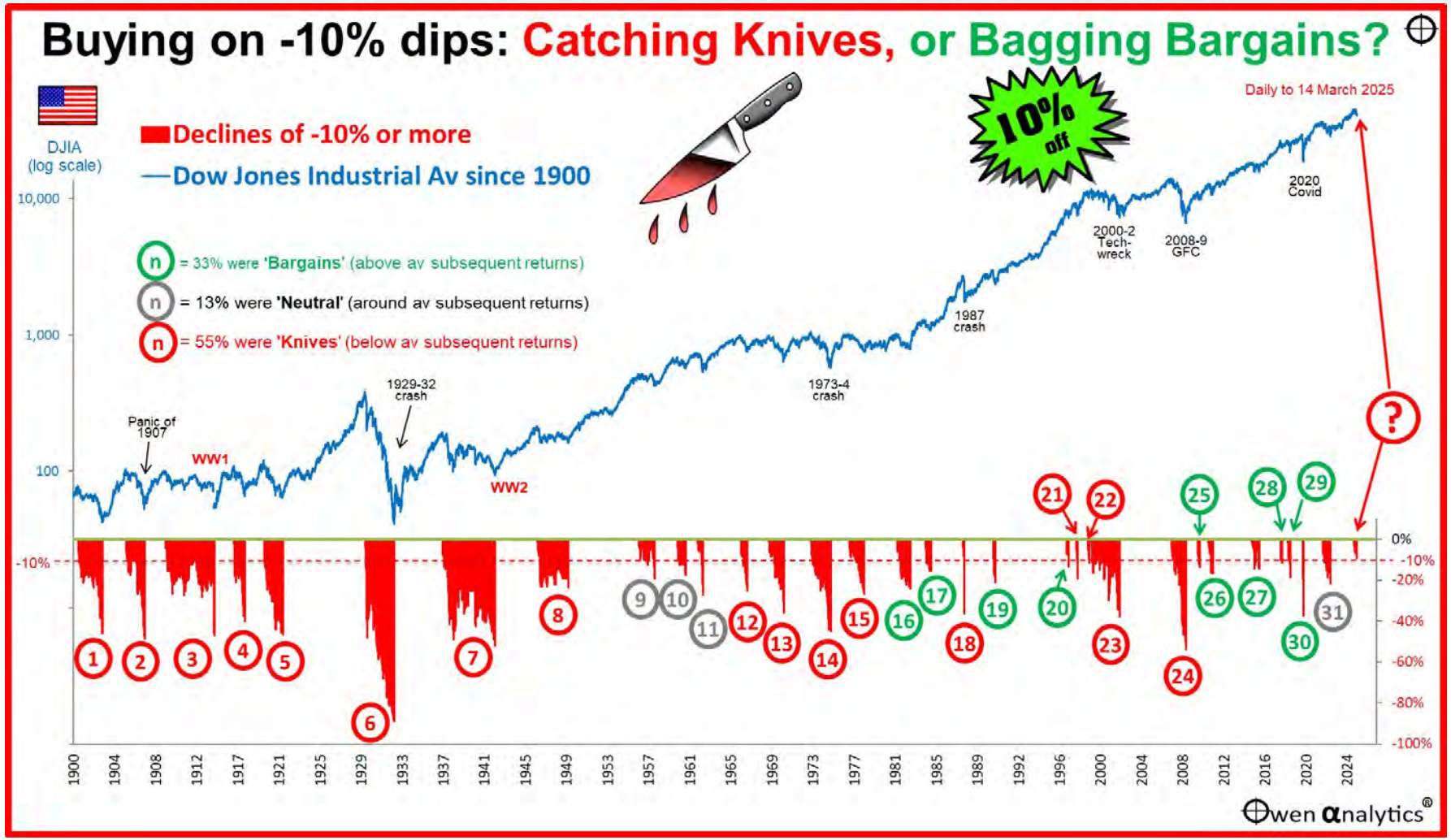
- Fell -37.1% in Feb-March 2020 Covid
- Fell -16.6% in 2022 inflation/rate hikes
- Fell -14.7% in 2025 (17 Feb to 7 April)

ASX dips worse than -10%



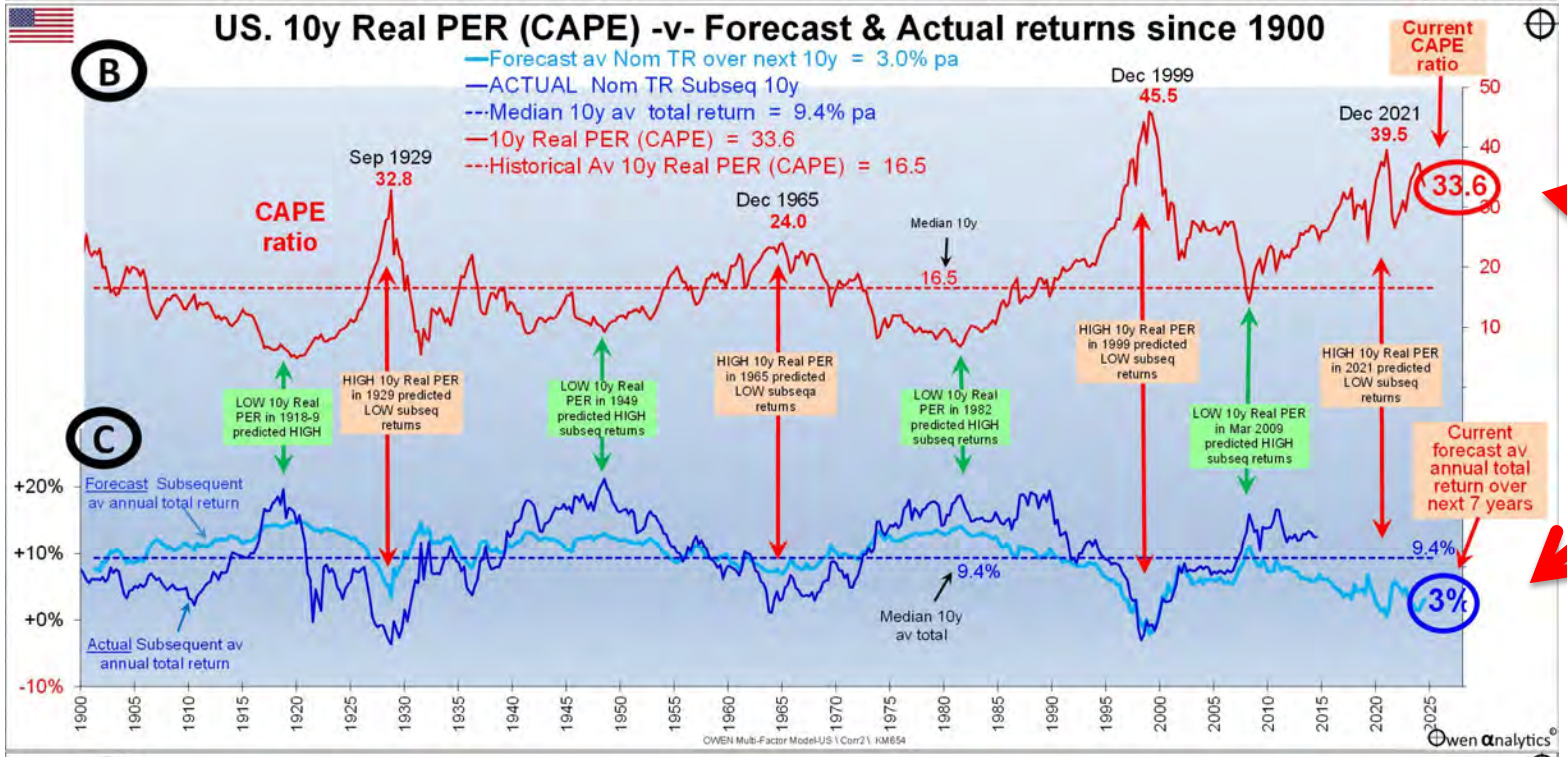
- Some -10% dips recover quickly
- Others turn into big busts
- The key is PRICING
- Will be driven by US market (as always)

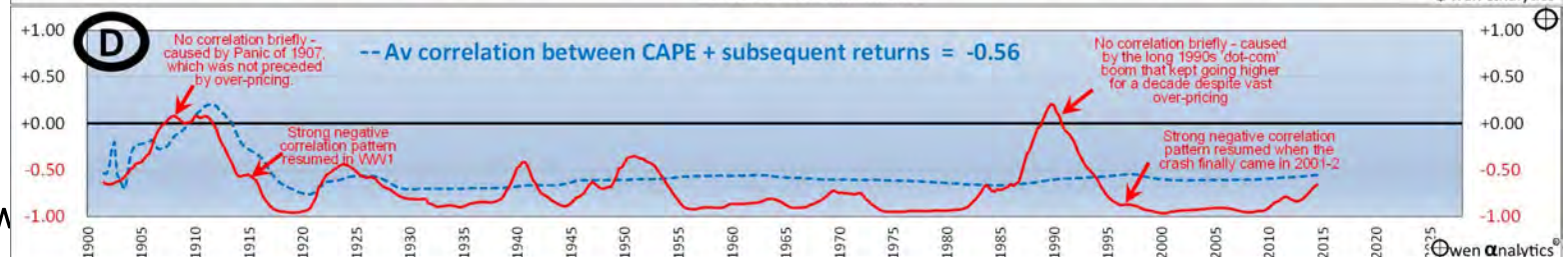
US dips worse than -10%



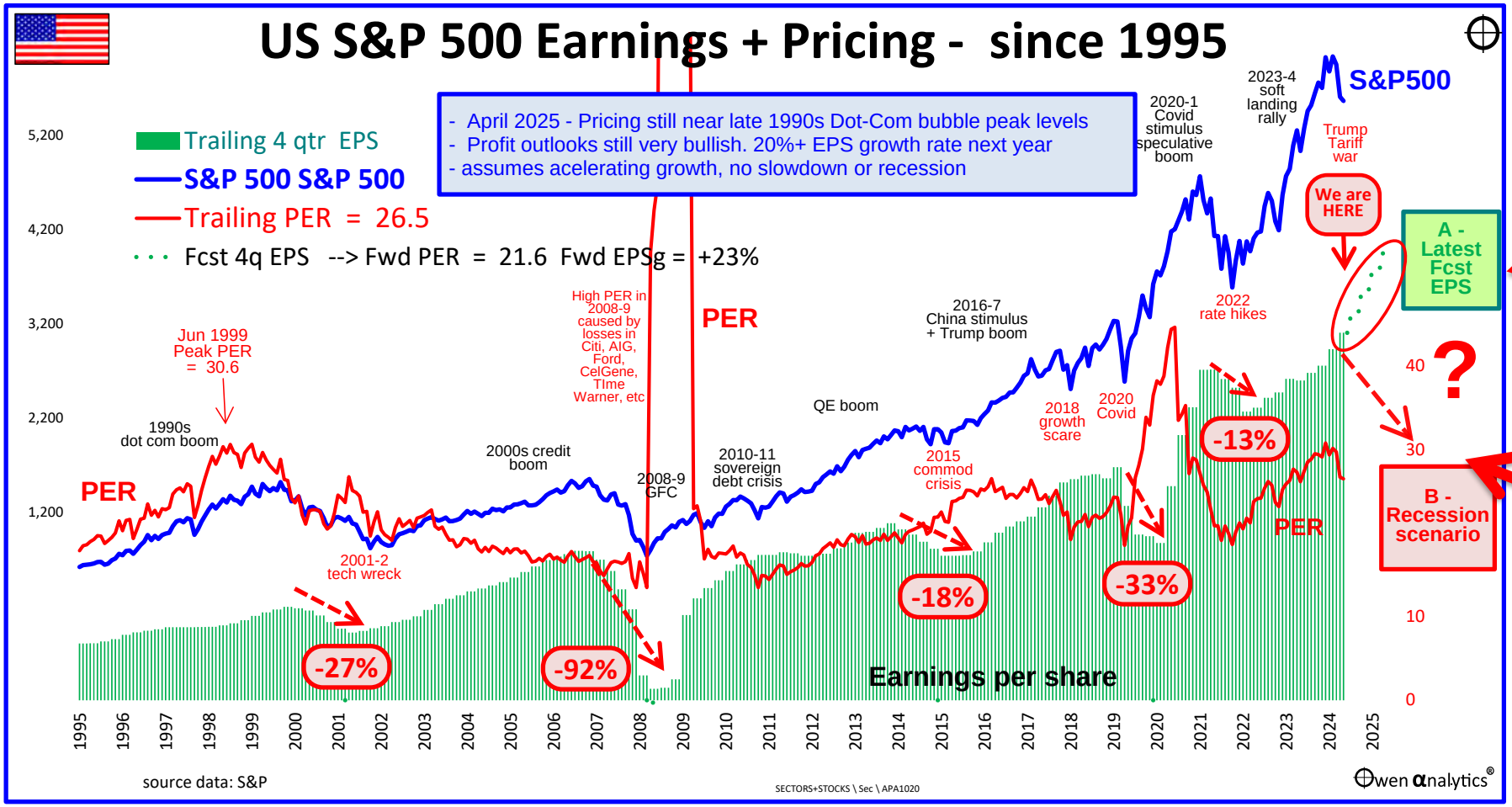
- Some -10% dips recover quickly
- Others turn into big busts
- The key is PRICING
- Current market is very over-priced – heading for a BIG correction

What we DO know – 2: US is vastly over-priced



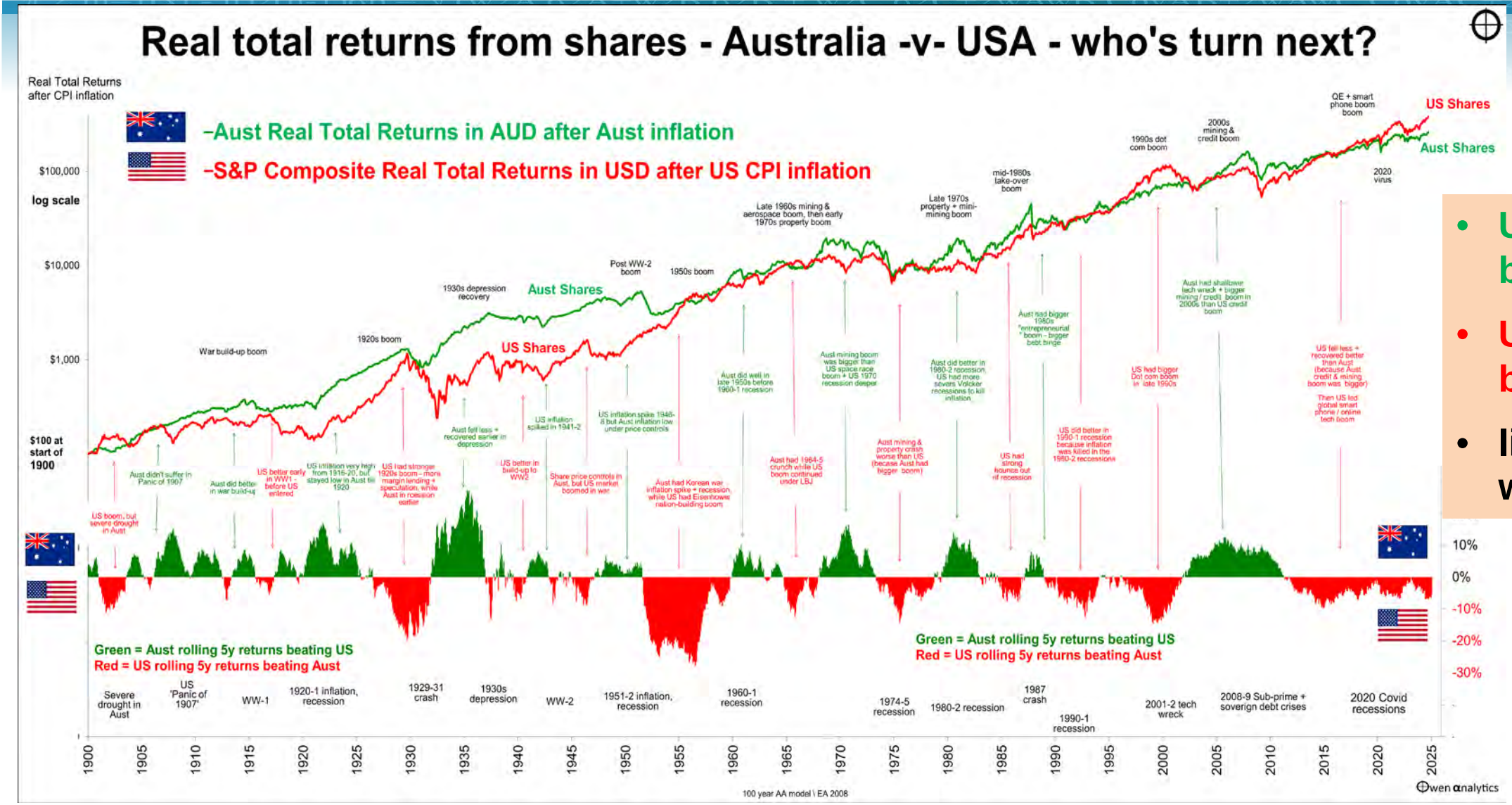


- **US market still very expensive on fundamentals (trend real earnings)**
- **Almost certainly well BELOW average 7-10y returns from here**



- **US earnings forecasts still ridiculously bullish**
- **But good chance of earnings collapse in Tariff / DOGE induced slowdown**

What we know - 3: Aust follows US – but take turns



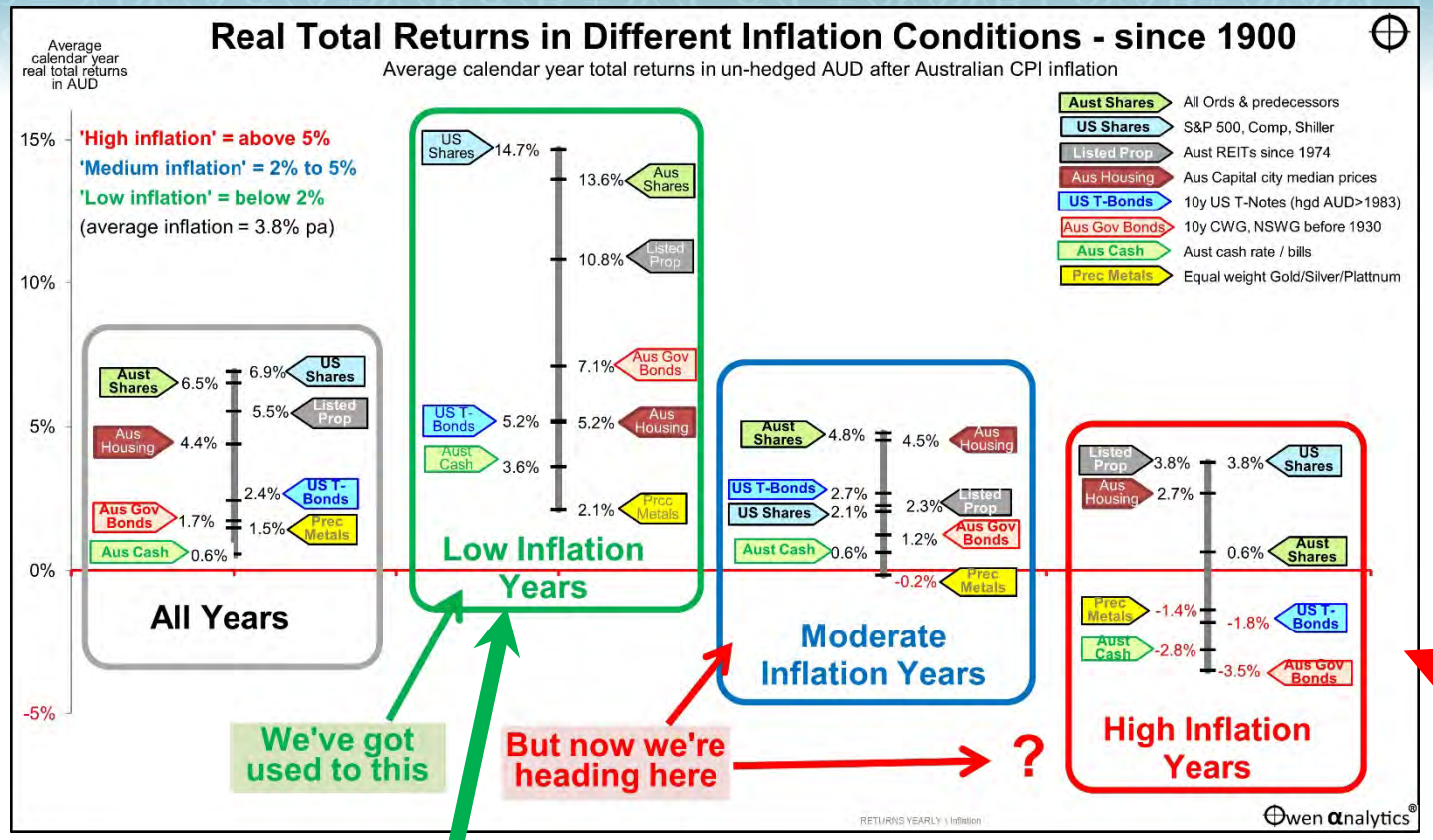
- US had bigger boom this time
- US Will have bigger bust
- like 2000-2 tech wreck, 1929-32

- Both markets: average real total returns of 6.5% pa – but they take turns

INLATION

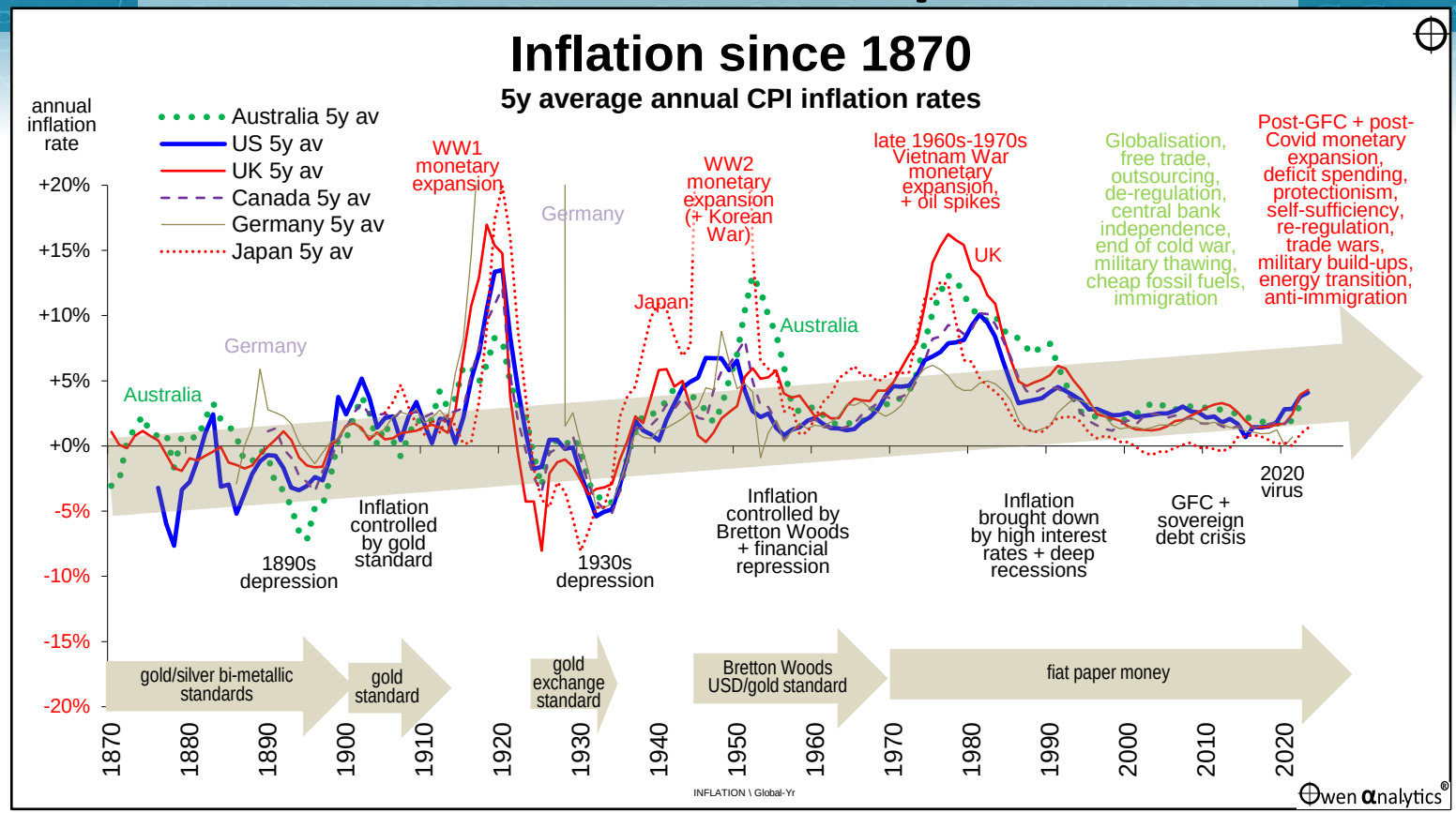
- what we know
- what we can be fairly sure of

Asset classes perform very DIFFERENTLY in different INFLATION conditions:



- Returns from ALL asset classes are significantly ***higher*** than average when inflation is ***low***
- Returns from ALL asset classes are significantly ***lower*** than average when inflation is ***high***
- There is **NO** effective 'inflation **HEDGE**', not even precious metals
- Building a CPI+4% portfolio (4% spend rate) is **NOT** possible with moderate/high inflation

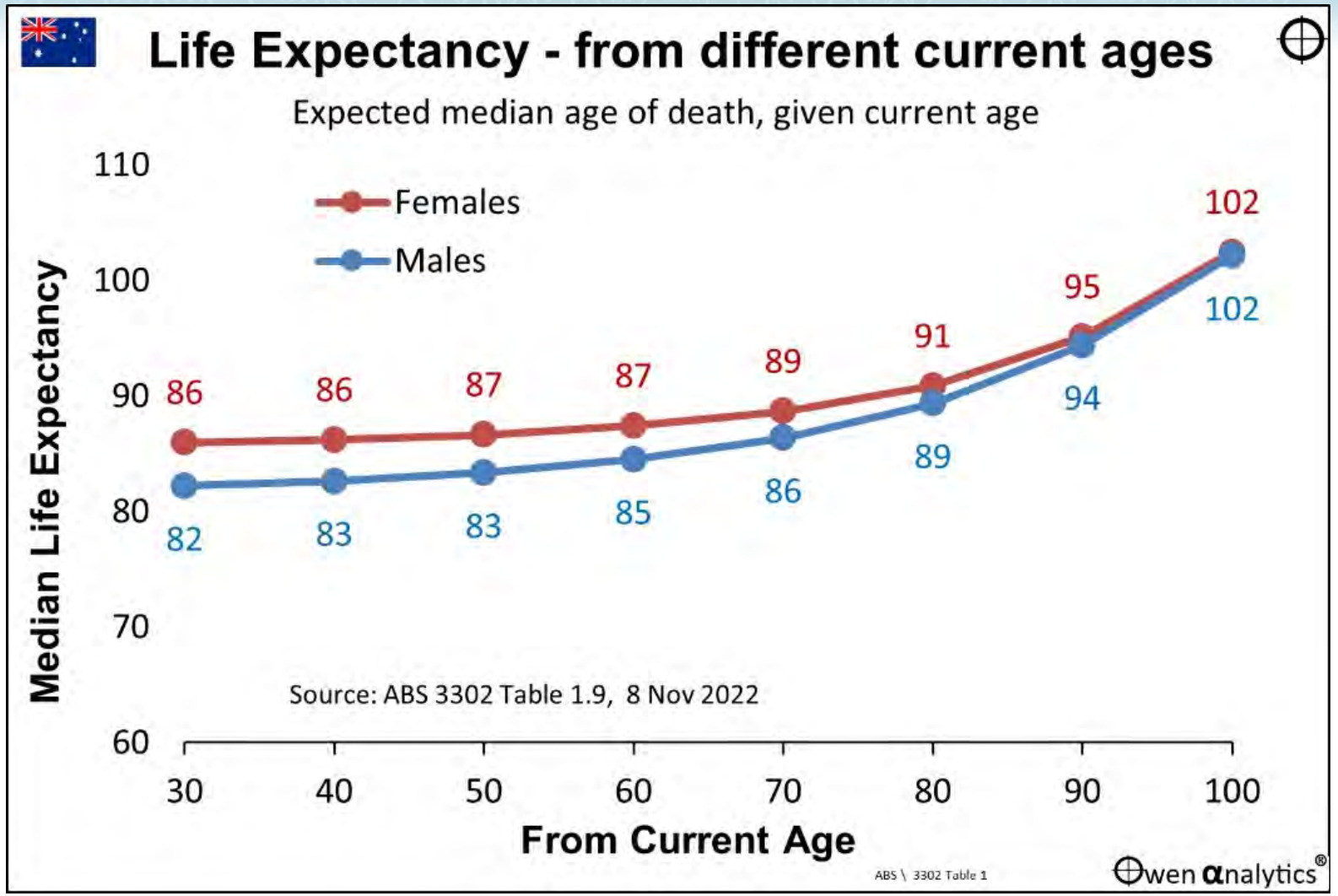
Inflation – the BIG picture



- The recent golden era of declining/low inflation (unusually high asset class returns) is over
- Australian / global inflation will almost certainly be higher that past 30-40 years
- Nominal and REAL returns from ALL asset classes will be LOWER than past 30-40 years
- → safe withdrawal rates (real total returns) are likely to be lower (higher Multiples needed)

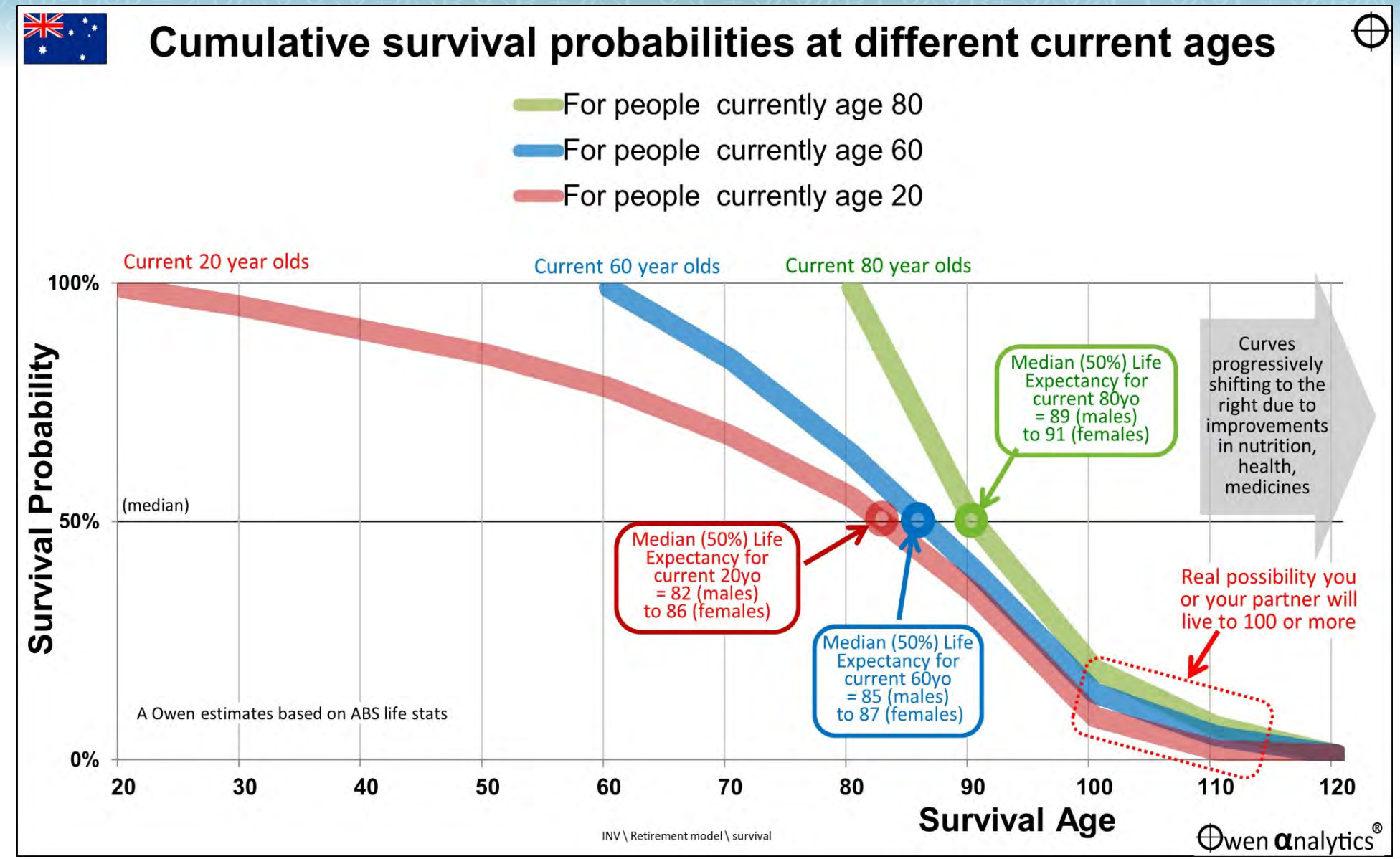
What we know about life expectancy

The longer you live, the longer you are likely to live

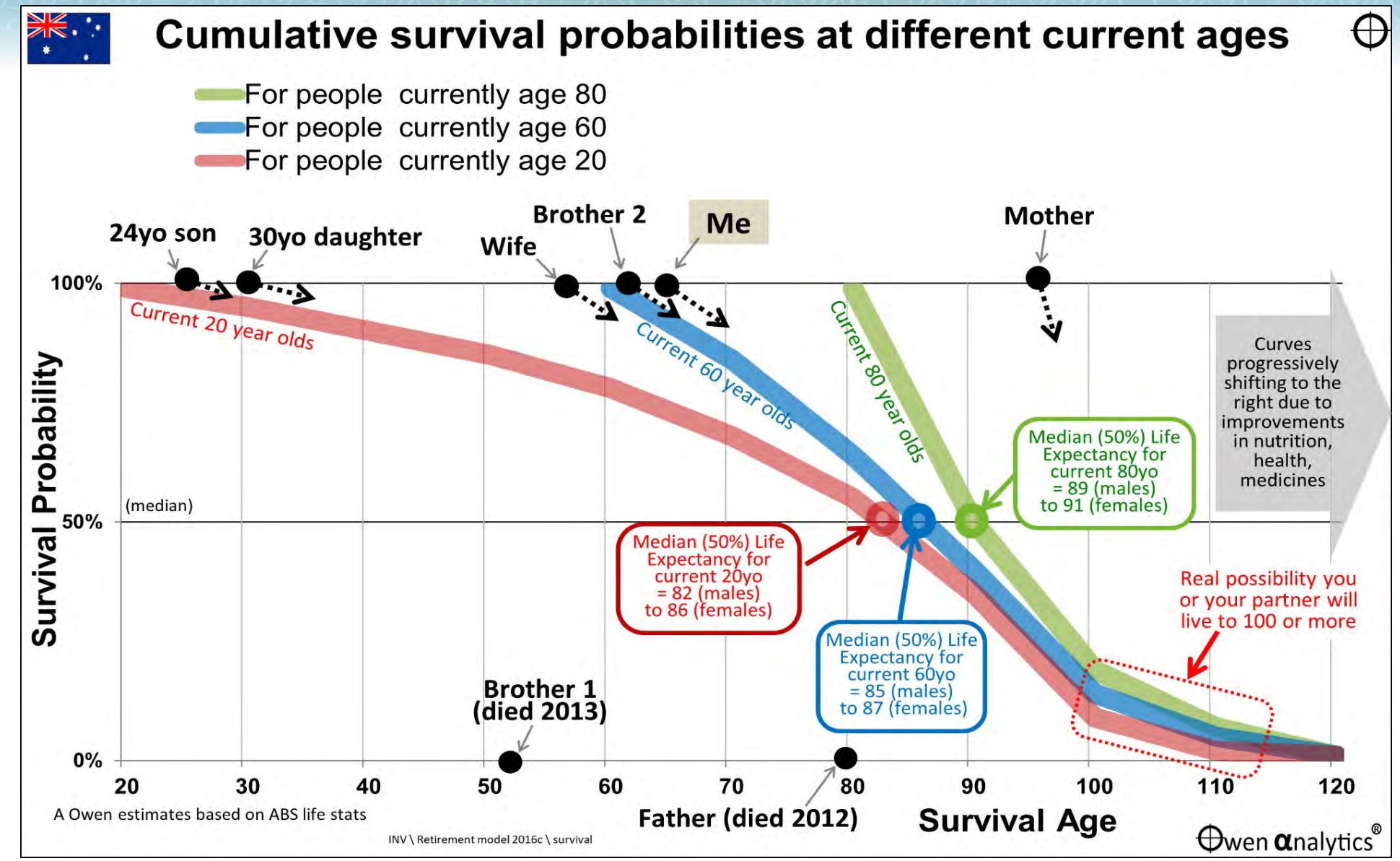


Problem is…..That's just the 'median'

Focus not on the Median, but a Survival Probability Curve



Do this for your family / your clients



Survival Probability Curves have been moving to the RIGHT (longer lives) by about THREE DECADES over your lifetime!

	Born	Median life expectancy at birth	Age now	Median life expectancy NOW	*INCREASE* in life expectancy (shift to the right)
Mother	1928	63	96	99	36 years + still going
Father	1932	(probably around 40-50?)	(died 2012 age 80)		3 decades at least
Me	1959	67 (if born in Aust)	65	85	2 decades + counting

Mother: Australian Yearbook 1926, p.971. Me: Australian Yearbook 1959 p.346. Current life expectancy tables: ABS 3302 table 1

Planning implication:

Forget current life tables. Assume life expectancy will increase by about 3 DECADES over lifetime

Client implication:

'One of you is probably going to live to 100!'

Portfolio Management Implication:

Managing portfolio for 30-40+ years = effectively same as managing perpetual portfolio = like charities, endowments

TRUMP – what's his plan?

- In the century leading up to 1914 - America grew to be the **largest economic & military power**
  - High **protection** barriers (to encourage local manufacturing, countering British protective policies)
  - **No central bank** (tried twice, shut down twice)
  - **Gold standard**, hard money (apart from fiat 'green backs' to finance the Civil War)
  - **Small central government**
  - Financed via **import tariffs/customs** duties, not income taxes
  - (+ they even had a devastating/destructive Civil War along the way)

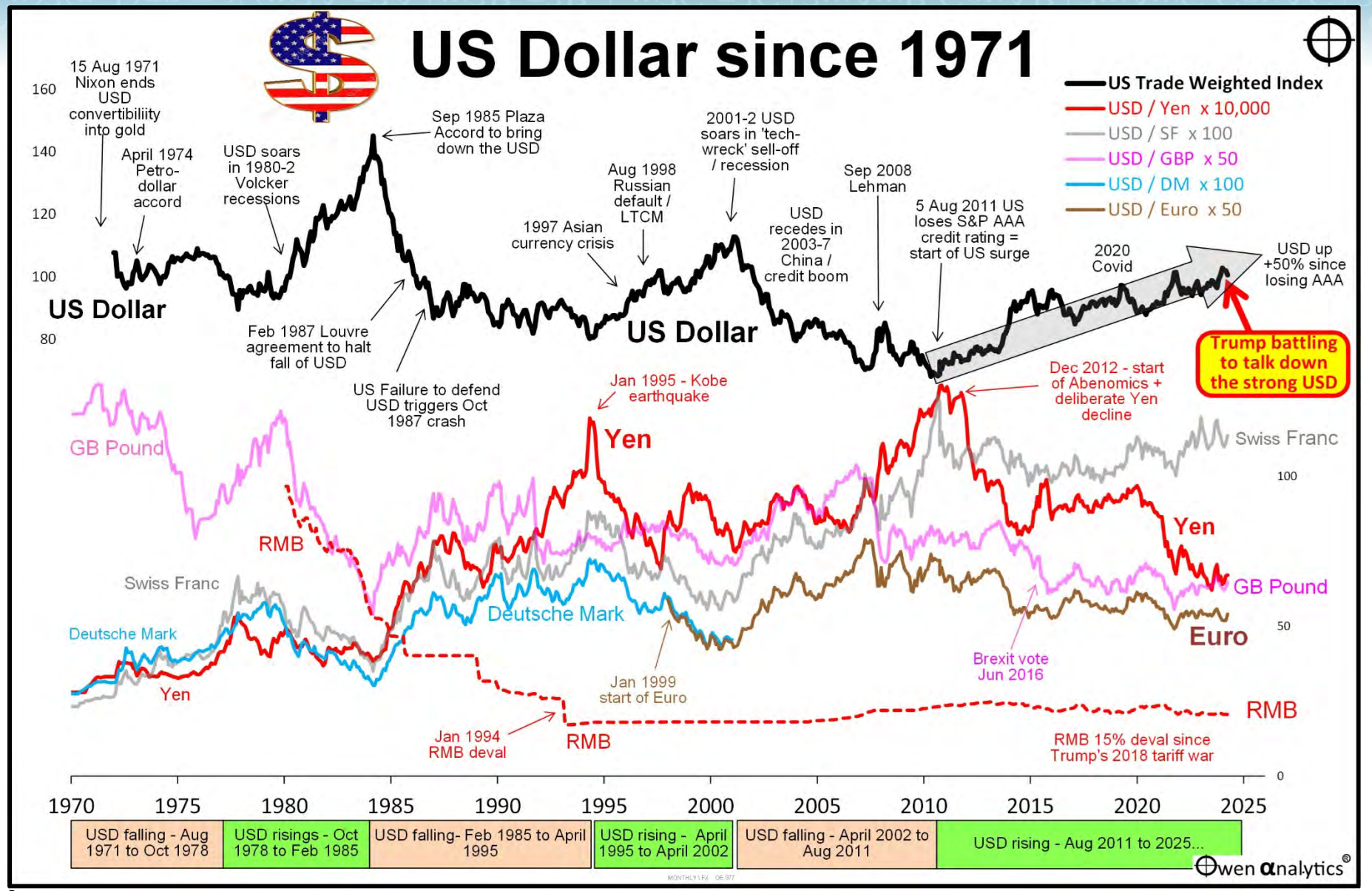
- WW1 to 1970s
  - US reluctantly entered wars to stop Europe's wars + Japan's rampage
  - at huge **cost** to US (money + lives)
  - + **financed** the rebuilding of Europe/Japan + paid for their security (to prevent them warring)
  - + **financed** all the international bodies to prevent future wars (UN, IMF, World Bank, etc)
  - **Paid** for protection for rest of world from Soviet threat

- **Post 1980s Globalisation**
  - Massive rise in US gov size + spending
  - Went from being largest creditor to **largest debtor nation** (creditors = Japan then China)
  - **Out-sourced jobs** to low wage countries (led by US companies)
  - Foreign exporters lent Americans the money to pay for the stuff they imported from them
    - → **increased US current account deficits + foreign debt**
  - **Strong dollar** (reserve / 'safe haven' currency) → hurts exports + favours exports → trade deficit
  - **Lost critical manufacturing** for self-defence + essential industries
  - But US is still paying for everyone's else's defence/security! (to stop them fighting each other!)

- **The vision? Re-create some key conditions that led to America's earlier dominance -**
  - High **protection** barriers → to counter foreign subsidies, state support (esp. China)
  - **? No central bank** → Aim = low interest rates – better for workers, better for the asset rich
    - (from 1942-1952 Treasury instructed Fed to cap rates at 0.375% for bills, 2.5% for bonds)
  - **? Gold standard** (limited supply limits gov money-printing + inflation) → Bitcoin?
  - **Small central government** → fewer functions, de-reg, cut 'waste', self-serving depts, DOGE
  - Cut deficits/debts → reduce size of gov, stop financing other countries' wars/defence, tariff revenues
  - Financed via **import tariffs/customs** duties, not income taxes → cut income taxes
  - Cut Trade/Current A/c Deficit → lower exports (higher tariffs), smaller gov, cut interest cost (cut debt)
  - → Needs to bring down the Dollar without causing panic/crashes

All of that in 4 years?

End of the US Dollar? Hardly! Problem is it's too strong!



What we DO know about the future

4 things we can say with 100% certainty about the future for investors:

1. **Human nature** will always create **booms** & **busts**. What matters is how you **react** and **act**
2. Stock markets are now vastly **over-priced** – they WILL **revert + swing to over-sold**
3. **US** is more over-priced this time – Aust will hold up better – then it's our turn to boom!
4. In the busts – **everything** is sold off - even good stocks – creating **bargains**

4 things we can be fairly sure of:

1. Recent era of **Low inflation / low interest rates phase is over**
   - **globalization, deregulation, hands-off gov, 'just-in-time, 'peace dividend' – all gone**
2. Rising **military** spending & demand for **commodities**
3. Fragmenting politics, populism, xenophobia – fueled by **technology replacing jobs**
4. **Demographics** - Aging populations + rising pressure on government pensions – 'tax the rich'

Homework!

- Understand if we're in an over-priced **boom**, or over-sold **bust**
- Have a plan for what you will do in the booms & busts
- Understand if you're a **speculator** or **investor**?
- Start working on a '**buy list**' with 'buy prices' (ready for a sell-off)
- Do Survival Probability Curves for you & your family

Final thoughts. . .

Thank you..!

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