

# STUART CARLYON

Financial advisers for your lifetime goals

## The heat is on

With so many uncertainties in the world including trade wars, geopolitical tensions, climate change, rising populism, involuntary and voluntary migration movements, the heat is on, a very apt title for the Portfolio Construction Forum conference the advisers recently attended in Sydney.

The conference was staged at the Carriageworks, a restored railway workshop that forms a wonderful space to be in, especially since it featured an exhibition of stunning art work by Nick Cave (not the musician). As an environment the venue was a spectacular collision of history and creativity, and it set the scene for many excellent speakers.

One of these keynote speakers was Dr Pippa Malmgren an economist and consultant at a global level to Governments and politicians. Currently she has been embroiled in work with the British Government on Brexit.



*Spinning Baubles - Artwork by Nick Cave at the Carriageworks*

She had a refreshing take on some widely held beliefs which are having an impact on our lives and unlike the popular image of economists (described famously as the Dismal Science), Dr Malmgren opened her talk by saying, "I might be blunt in my remarks and that might surprise you".

She didn't disappoint. Among her main points:

- There is belief that China is the future and that the US is up the creek – however China has less traction than people might realise. It no longer has the lowest-cost manufacturing in the world and the brakes are coming on after decades of amazing growth.

- In one sign of America wresting back dominance, Taiwanese mega-industrial computer components manufacturer Foxconn is shifting some operations to the US because it is cost effective and offers quality control. (Though a \$US4.5 billion tax incentive must have helped.)
- The Belt and Road initiative by China is a physical attempt to connect with others in order to generate GDP outside of their own country and reduce the physical barriers to trade. However, there's a parallel drive to develop a China-centric electronic environment as well.
- This is problematic in terms of freedom and human rights. China has instituted a Social Credit system not dissimilar to the 'Like' rating system of Uber where demerit points accumulate to you for debt or social misdemeanours say, smoking on the train. With enough demerits you start to lose various benefits open to regular citizens. Those with demerits might be kicked off over-booked flights. Life becomes more difficult.
- The West, she believes, has a huge advantage as China can't be innovative with these types of constraints on individuals.

## Mex-it and Brexit

Malmgren challenged the audience when she concluded that China is not the future, Mexico is the future. In Mexico's favour: low cost labour, already integrated into the US economy, and quality manufacturing expertise similar to that of the US. She brushed off Trump's Wall as a factor. Mexico may dislike Trump – but it can still create a growing economy.

**“...Britain's departure from Europe will not hurt the UK because, in her view, the EU is such a mess...”**

Having worked closely with the UK Government, Malmgren's personal views about Brexit proved fascinating. She feels Britain's departure from Europe will not hurt the UK because, in her view, the EU is such a mess and it is difficult for investors to make money in France or Germany because neither are particularly business friendly. One critical advantage of the UK is that investors are protected by a rule of law.

## Different forms of money. Are the rules changing?

Malmgren's speaking slot was wide ranging and packed with observations. One of the subjects she ruminates on is the possibility of nations ripping up our current money and accounting systems to deal with the massive debt problem. Debt ridden nations can't extract more tax from citizens, as this leads to social unrest, so is it time to re-architect the way the money operates?

Can't be done? A radical reinvention of the accepted financial system occurred in 1834 in the UK with the abolition of Tally Sticks. Tally Sticks were widely used as a form of IOU and took on a value of their own. The stick would be split in half with the debtor retaining half, called the "foil", and the creditor retaining the other half, called the "stock" which is how the word "stocks" is used today in the context of stocks and bonds. The sticks recorded how much was owed by whom and became a form of currency.

The system worked well until inflation presented a problem and they were eventually abolished. The British House of Lords literally burned the remaining lot in a coal oven fire that, alas, got out of control and resulted in the House of Lords and the House of Commons burning to the ground. Most of the Palace of Westminster was also destroyed.

But the new financial regime of paper money freed up the flow of capital and fuelled the industrial revolution. Could similar spring cleaning be useful today?

It's coming. Governments today could abolish cash (its usage has virtually disappeared from China), and adopt a fully digital system, and doubtless could find new ways to impose tax. A new system involving a time stamp would track individuals' activities and spending. Collection of all this ubiquitous data would enable control of all financial transactions.

## Conclusions

We've only touched on some of the economic landscape that Dr Pippa Malmgren traversed. She left on an upbeat note however, despite the fact that geopolitics, debt, Brexit, Trump, and Orwell's Big Brother were all part of the story.

**“Don't mentally think of a melt-down, but instead think of a melt-up!”**

"Our reality is so different nowadays," she said. "But why do we want certainty? Fun things involve uncertainty. Don't mentally think of a melt-down, but instead think of a melt-up!"

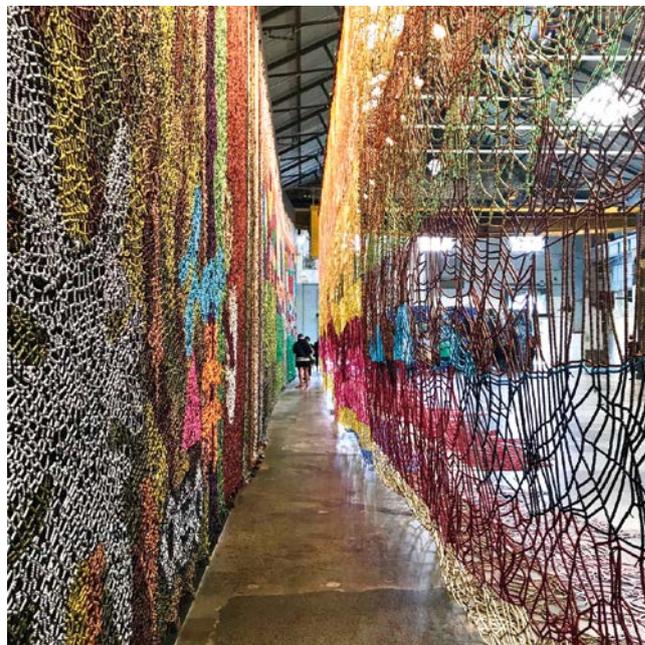
Investors have had a good run since the GFC meltdown, but if you listen to Malmgren, there are always areas of growth as human endeavours seek out improvements and solutions to the problems of the world.

## Other items of interest from the Conference

### Rise of the robots?

The financial planning industry is constantly evolving; take Roboadvice. Based on systems which ask a suite of questions about your investments and assets, and demographics, then using algorithms to suggest an optimum portfolio. They're clever. But they miss the important dimension: the uniqueness of you.

As advisers we are not too concerned about them taking us over. They have a place when dealing with simpler financial situations. Human advisers deal with clients' dreams, aspirations, beliefs and values, and customise strategies. Robbie the Robot can wait.



*A hanging of beaded netting - Artwork by Nick Cave at the Carriageworks*

### Your own home?

The dream is fading. Australian research shows those under 35 years old are not interested in owning their own home. First is the barrier of housing affordability. But younger people are looking for more flexibility in their lives and are less attracted to a home because it might anchor them down.

### Money. Environment. People.

The triple bottom line. The most successful societies blend strong economies with healthy environments, inclusive social policies, representative political institutions and fair legal frameworks. From research by Aberdeen Standard, they have titled these societies as the "Social Capitalists", and of the developed countries, the top four are Ireland, Sweden, USA and UK. They measured highly on the environment, social, governance (ESG) scores along with strong growth. NZ rates reasonably well on the ESG score but has weak growth. For most countries, environmental issues pose the greatest challenge.

## Your favourite time – TAX TIME!

The financial year end has just passed. For clients with portfolios, we will be preparing your tax schedules, most of which will be emailed directly to your accountant. It's important that you let us know if you have changed your accountant since 1 April 2018. Also, if you are a provisional payer, your accountant may need an estimate of your potential income from overseas investment funds. We can provide the relevant figures as required.