Investing in Equities:
What is the status, Dr Rudi?
- October 2018 -

A different perspective based upon many years of day-to-day analysis and market observations

A presentation by
Rudi Filapek-Vandyck, editor FNArena
All the research and data from around the market, and around the world, summarised, analysed and explained, independently, with no bias.

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➢ BUT NO FINANCIAL ADVICE!
Expert Forecasts: 2011-2018
BREAKING NEWS!

This time, it really is different...
Dinosaurs Became Extinct

That quote you read about it not being the strongest, nor the most intelligent that survives, but the one most adaptable to change...

Charles Darwin never said it.

friendsofdarwin.com/memes
Bonds Changing Direction

10-Year Treasury, 1/2/62 - 7/12/13
Is Every Ripple Now A Tsunami?
All Roads Lead To The Same Destination:

The Future Has Already Arrived!
The Need For Structural Change
Crypto-currencies = Anti-establishment

“People in power will move to regulate anonymous transactions. That you can be sure of. Bitcoin could easily be worth just US$100 in 10 years.”

Joseph Stiglitz, economist
Technology & Innovation are creating ‘Winners Take All’ environment
Widening Gap Between Haves & Have-Nots

Valuation spread between high/low LT growth cohorts has widened

Source: Factset, IBES consensus estimates, Morgan Stanley Research
In Search Of A New World Order
The Era Of ‘Quality’

**Different Interests** A high percentage of millennials and women say they are interested in ESG investing. Financial advisers aren’t responding yet.

Sources: Morgan Stanley Institute for Sustainable Investing, Cerulli Associates
MSCI All Country World ex-U.S. and S&P 500 Indices
Dec. 1996 = 100, U.S. dollar, price return

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<tr>
<td>S&amp;P 500</td>
<td>16.8x</td>
<td>15.9x</td>
<td>2.0%</td>
<td>2.0%</td>
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<tr>
<td>ACWI ex-U.S.</td>
<td>12.9x</td>
<td>14.3x</td>
<td>3.4%</td>
<td>3.0%</td>
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<td>As % of U.S.</td>
<td>77%</td>
<td>90%</td>
<td>173%</td>
<td>149%</td>
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Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.

Emerging Markets: How Vulnerable?

Average stock price performance of top 15 NBFCs

Source: Bloomberg, ANZ Research
“In the Australian share market, the battle between ‘Value’ and ‘Growth’ has been decisively won by ‘Growth’ over the five years past.”
The Sweet Spot For Aussie Equities

Annualised performance of large, mid and small cap indices

Growth versus Value

Buying Growth has been a winning strategy – but can it last?

Indexed to April 2013

High PE companies have significantly outperformed the ASX200 by 13% pa.

SOURCES: MORGANS, BLOOMBERG

Price performance of ASX 200 12mf PE quintiles (rebalanced monthly)
Growth Keeps All Bears At Bay…
Rough Overview ASX In 2018

1.) Companies disrupted by new technologies and innovations
   -credit; retail; wealth management; supermarkets; media; telecom;..

2.) Companies unaffected or benefiting from new tech and innovations
   -CSL, TechnologyOne, NextDC, Corporate Travel, Treasury Wine,..

3.) Emerging Disruptors
   -Afterpay Touch, Xero, Zipmoney, Kogan, WiseTech Global,..
Case Study: Australian Banks

Sector dividend movement vs. economic indicators 1

- Early-1980s recession: Monetary policy-induced to fight inflation linked to labour market issues
- Bank deregulation and 1987 crash
- Early-1990s recession: Monetary policy-induced to slow economic growth following credit-fuelled asset price inflation in late-1980s (including inadequate prudential supervision) and current account crisis
- GFC: Poor overall risk management, governance, compliance and regulation, increasing leverage from low interest rates and lack of liquidity and funding
- Reflects ANZ dividend cut to rebase target payout from 65-70% to 60-65%

SOURCE: RBA, COMPANY DATA, BELL POTTER SECURITIES ESTIMATES
Growth versus Value

Cyclicals vs. defensive valuations*
Relative fwd. P/E ratio of cyclicals vs. defensives, z-score

Cyclicals expensive relative to defensives

Current: -0.16

Cyclicals cheap relative to defensives

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
The Conceptual Framework: 5 stages

Source: I/B/E/S, Datastream, Goldman Sachs Global Investment Research
Bond Market Influences Equities

Detrended relative performance, 1973-2018

Source: Datastream, Bloomberg, Morgan Stanley Research
Underlying Pressures On Consumer Spending

As a result, we forecast weak discretionary spending as average real incomes fall.
Australia’s Infrastructure Buffer

Major Transport Infrastructure Projects - Australia

Value of Work Done by Year
(Years Ended June)

Forecasts
- Monash Freeway Upgrade
- Albion Park Rail Bypass
- Brisbane Metro
- Canberra Light Rail
- Gold Coast Light Rail
- Logan Enhancement
- NorthLink
- Moreton Bay Rail
- Sydney Metro - City & Southwest
- Sydney Metro - North
- Sydney Light Rail
- Outer Suburban Arterial Road
- Perth Metronet Rail
- Inland Rail
- Western Harbor Tunnel & Beacon Link
- Sydney Metro - West
- Sydney Metro - Eastern Suburbs
- Sydney Metro - North
- NorthConnex
- WestConnex
- Bruce Highway Upgrading
- Pacific Highway Upgrading

Projects by Year:
- 2006: South East Freeway
- 2007: Gold Coast Light Rail
- 2008: Moreton Bay Rail
- 2009: Logan Enhancement
- 2010: NorthLink
- 2011: Sydney Metro - North
- 2012: Sydney Light Rail
- 2013: Western Harbor Tunnel & Beacon Link
- 2014: Perth Metronet Rail
- 2015: Inland Rail
- 2016: Western Sydney Roads
- 2017: Sydney Metro - Eastern Suburbs
- 2018: NorthConnex
- 2019: WestConnex
- 2020: Bruce Highway Upgrading
- 2021: Pacific Highway Upgrading

October 2018
Less Volatility + Consistency + Lower Risk = All-Weather Stocks

Earnings Yield of High and Low Risk stocks

Source: Macquarie Research, October 2012
FNARENA / VESTED EQUITIES
ALL-WEATHER MODEL PORTFOLIO

The only portfolio that invests in line with the FN Arena Editor's market analysis

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➢ Question time!