EQUITY

A magazine from ASA – The voice of retail shareholders

Vol 35 #08 – SEPTEMBER 2021 – RRP $10

Planning opportunities in unprecedented times

NATIONAL OFFICE

Rachel Waterhouse
CEO

John Cowling
Executive

Fiona Balzer
Policy & Advocacy Manager

Damien Straker
Advocacy Coordinator

Joly Batac
Accounts Officer

Francesca Muscatello
Events Executive

Mary Calleja
Membership Services Officer

Doug Gannon
Membership Officer

April Tran
Marketing Officer

STATE BRANCHES

ACT John O'Callaghan act@asa.asn.au
NSW Richard McDonald nsw@asa.asn.au
QLD Steven Mabb qld@asa.asn.au
SA Brad Martin sa@asa.asn.au
VIC Christine Haydon vic@asa.asn.au
WA Geoff Sherwin wa@asa.asn.au

EQUITY EDITORIAL TEAM equity@asa.asn.au

Rachel Waterhouse Managing Editor
Zilla Efrat Content Editor
April Tran Cover Design

CONTACT DETAILS

TELEPHONE 1300 368 448
02 9252 4244

FAX 02 9071 9877

ADDRESS Suite 11, Level 22
227 Elizabeth Street
Sydney NSW 2000
PO Box A398
Sydney South NSW 1235

ABN 40 000 625 669

EMAIL share@asa.asn.au

WEBSITE
www.australianshareholders.com.au

SEPTEMBER 2021 CONTENTS

VOL 35 #08

If you have an idea for an *EQUITY* article, please contact the Editor.

From the CEO

By **Rachel Waterhouse**, CEO

On behalf of the ASA, I hope everyone is coping well with the ongoing COVID-19 restrictions and that you, and those closest to you, stay safe.

Ongoing lockdowns and similar forms of government intervention can usually be expected to have a detrimental impact on the markets, so it is pleasing to note that the S&P/ASX200 continues to be at all-time highs despite the lockdowns.

This is a positive sign for the economy and a helpful counterbalance to other pressures on the economy. Nonetheless, we hope that restrictions end soon so that things can return to normal.

For the present, though, I encourage those impacted to continue to attend local member meetings via Zoom and to stay connected with your peers. We will continue to make available webinars and podcasts to support you, including over 100 webinars in the ASA webinar library.

If you are at a loss as to what to watch, the webinar titled *'ETFs are winning the battle against LICs but is the WAR over?'* has been the most viewed webinar so far this year, so it may be worth a look.

What's happening this month?

In the September edition of *EQUITY*, there is a range of articles relevant to the retail investor, covering mergers and acquisitions, creating an investment plan, how to recognise and respond to blow-off tops, and findings from an investor survey.

This month, two of our interns have provided articles to our magazine. I would like to thank Sophie Plumridge and Jake Lees for their contributions both here and in member meetings. Thanks also go to Steven Mabb and John Cowling for taking the time to mentor them and share their expertise.

Podcast priorities

Following the request I made in our weekly email, ASA members have kindly shared their favourite investment podcasts.

These have been collated into an article this month, covering your top picks. If you are not yet a podcast listener, why not try something new, download Spotify, and listen to one of the podcasts on the list. You may soon be hooked.

Make your proxy count!

ASA is the voice of retail shareholders and the main reason companies meet with and listen to us is because of the number of proxies given to us. Have you appointed ASA to be your proxy?

Last month I tested out the system, by providing a standing proxy for my shareholding to ASA.

It was easy:

1. Go online to: www.australianshareholders.com.au/your-proxy-counts.
2. Complete a form for each shareholding.
3. Return it to the share registry.

The good thing about a standing proxy is that once you have completed it and returned it, it's permanent.

The online form and instructions on what to do are on our website, and proxies can be given for individual listed company meetings or as a standing order for ASA to vote on your behalf.

If you're not sure of what to do, contact us and we can prepare your proxy forms for you with the relevant information and your approval to proceed. All you then need to do is sign the forms and send them to the share registries.

You can go to the website for further information or call us and speak to an ASA team member.

There's strength in numbers, so if you're not planning on voting directly, please consider granting us your proxy vote.

Practical estate planning

This month we also have an article about the importance of estate planning from Peter Bobbin, Principal Lawyer at Coleman Greig Lawyers.

Peter has very kindly contributed his time to ASA for free to discuss this topic and garnered significant interest from members in his three-part online seminar series last year, which he has agreed to reprise on 16 September.

He has also made available a series of 22 short videos covering all aspects of estate planning you need to know about when preparing a will. This series can be purchased from the resources section of the ASA website for $55 and will be useful for you to watch and share with each generation of your family.

I would encourage you to access this series whether you need to start estate planning, or want to check you have everything in place, even if you plan just to give everything to a family member, because as Peter says: 'Start planning and ensure you are remembered as someone who got it done.'

Calling for volunteer monitors

ASA volunteers currently monitor over 180 companies on behalf of retail shareholders.

They meet company directors ahead of an AGM, prepare the ASA's voting intentions, and produce an AGM report, which we make available on our website.

If you are interested in becoming a monitor and would like to be paired up with an experienced monitor, please let me know and I will put you in touch with the relevant state monitoring chair.

This opportunity is available to members, so if you know someone who would be a great monitor, but has not yet joined, please get them to contact us.

Tell us what you think

How are we going? Let us know if you're getting the information you need by providing us with feedback. You can email me with your thoughts at rachel.waterhouse@asa.asn.au or call me on 0402 336 352.

Until next time, stay safe and well. E

ASA educates investors and stands up for shareholder rights

Expand on your investor knowledge, meet like-minded people, and get protection for your rights as a shareholder.

We help you on your investment journey

ASA offers regular learning and education opportunities, so you can hone your financial knowledge and investment skills. You can attend member meetings, discussion groups, webinars, conferences, workshops, and read *EQUITY* magazine.

We connect you to a community of investors

ASA provides a thriving investment community where you can build relationships, engage with new ideas and learn with like-minded investors.

We protect your rights and make your vote count

We champion your rights and amplify your voice on shareholder matters and make your vote count.

www.australianshareholders.com.au/join-asa

Leaving a gift to ASA

Leaving a gift in your Will is a personal decision. A bequest to ASA is a legacy for future generations of retail investors and makes a difference to shareholder education and our advocacy on behalf of individual investors to protect their rights.

You can assist retail investors to connect with a community of shareholders, become more informed as investors and support ASA in advocating for the protection of shareholder rights.

For a confidential discussion, contact
1300 368 448 or ceo@asa.asn.au

australianshareholders.com.au/bequests

What does the 2021 M&A frenzy mean for shareholders?

By Professor Michael Adams, Head of UNE Law School

It is hard to miss the headlines of takeover and merger fever occurring this year. Partially this can be explained by the changing world markets, global pandemic and continuing growth in innovative technologies. In early August 2021, Square Inc (NYSE:SQ) and Australian fintech Afterpay (ASX:APT) announced a A$39 billion merger, the largest deal in Australian history. The transaction is not for cash, but for an exchange of shares. Afterpay shareholders will become Square shareholders.

The big question is whether it's a good idea to sell as a strategy or to benefit as a minority shareholder. As with life, this is a complex question and being a lawyer, the answer is… it depends!

The laws for takeovers and mergers have been settled for many years under the *Corporations Act 2001 (Cth)* and its predecessors. The law provides a safeguard to minority shareholders (those with less than 5% ownership) and substantial shareholders (those with more than 5%). There are also threshold trigger laws that kick in at 20% ownership; and then again at majority ownership (above 50%) and further requirements at 75% and 90% ownership. At 90%, the bidder is allowed to buy up the target minority shares, known as mopping up the minority. The legal principles are around fairness and equity with a good dose of reasonableness.

The laws do differ between off-market purchases of public companies and the role for an on-market purchases through a stock exchange, such as the ASX. The off-market purchase is similar to a private contractual arrangement of a public company to purchase shares from a specific owner (similar to a treaty for sale of a house or property) compared to an open auction in a public marketplace.

As a broad principle, no one can be forced to sell their shares in either an off-market or on-market mechanism. To ensure there is fairness in the process for mergers, both parties agree to take shares out of their own company and place them in a new entity. These are then mutually negotiated to benefit both parties. This is quite distinct from a takeover scenario which can be hostile. One bidder (usually the larger party) wishes to take control (more than 50% of the voting shares) of the target company. If the companies are listed on the securities exchange, the price will be higher than the current trading price. The offer can be a mixture of cash and/or shares in the bidding company.

The *Corporations Act 2001* provides safeguards for all parties and disclosures in takeover documents, which must reflect honesty and accuracy, similar to prospectuses when money is raised by companies. The *Corporations Act* can be enforced by the courts in each state and the Federal Court by an application of the regulator or a shareholder. A cheaper and usually quicker method of resolving disputes is to apply to the Takeovers Panel.

This current form of the Takeovers Panel has been around for 20 years and was created under the *Corporations Act*. It acts like a specialist court to speed up the takeover process and provide safety for minority shareholders in the transaction. Since 2000, there have been 604 applications to the Takeover Panel. 2003, the largest year, had 49 applications. On average, it takes about two weeks (16.6 days) for the Panel to make a decision, and a month for it to publish reasons for the decision.

In the first half of 2021, there have already been a massive A$148 billion in mergers and takeover acquisitions, according to Wilson Asset Management portfolio managers. Such activity can be beneficial for several reasons. A good example is Santos, an energy company, merging with the smaller Oil Search. This will produce a bigger company that can benefit from scale and relevance in a new market and provide other energy opportunities. This is different to the digital platform software of Square buying Afterpay's successful buy now, pay later business to downstream its global activities. This is closer to a diversification model which is building a larger global market and consolidating on a global scale.

At this point in the COVID-19 pandemic, some industries and businesses are growing at a rapid rate and have strong resources to continue to grow and take advantage of a rapidly pivoting world. Obvious examples of rapid growth are information services, such as media and medical services and diagnostics in pathology and radiology providers. These are all ripe for M&A activity, if the price is right.

So back to the key question for minority shareholders: Is M&A activity good for shareholders? Yes is the simple answer. The valuation of a merger target company will usually pay a premium above market price to obtain the sale and the transfer of control will occur smoothly (without delay beyond the regulatory requirements). This means that the target shareholder will receive a greater capital gain than would have been normal for a cash purchase. The benefit of accepting an exchange of shares, such as with Afterpay, is that you have a longer-term investment in a bigger and stronger competitor (the bidder company). The key is disclosure of all reasonable information so that the target shareholders – not just the board of directors' recommendation – can be taken into account. The Afterpay shares went from A$14 to A$40 at the beginning of COVID-19 to A$150 per share by February 2021. Although the price has now fallen, the Square deal will value Afterpay shares at about A$130 and provides lots of growth in all its other businesses.

Without doubt most shareholders of target companies will benefit from this M&A activity, which is likely to continue for the remainder of 2021.

Investor survey reveals confidence

By Amir Ghandar FCA, Reporting and Assurance Leader, CA ANZ

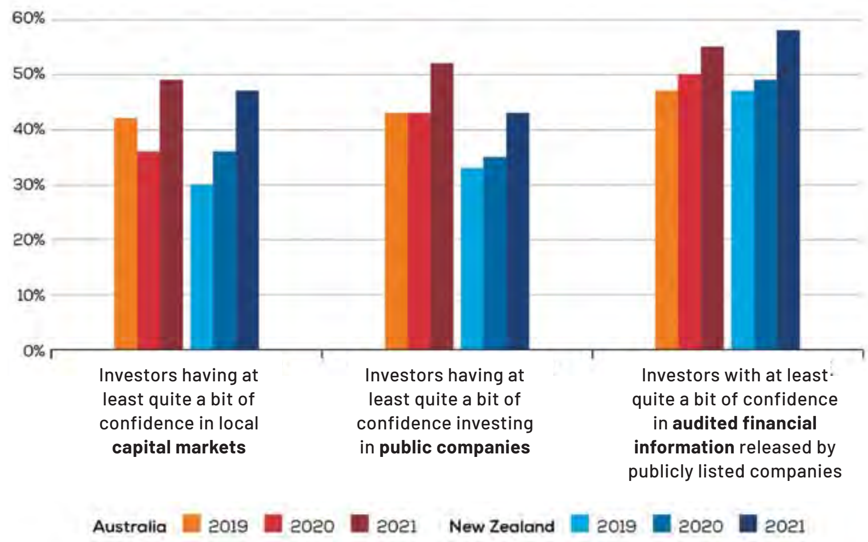
A Chartered Accountants Australia and New Zealand (CA ANZ) survey of retail investors has revealed a bump in investor confidence in both capital markets and listed companies.

Undertaken in June 2021, the survey of 1,000 Australian and 500 New Zealand investors reveals levels of confidence that are higher than pre-pandemic levels.

In Australia, confidence in capital markets sat at 87% and ASX-listed companies at 90%. When compared to previous surveys, confidence in capital markets was at 84% in 2019 and 79% in 2020 and confidence in publicly listed companies was at 85% in 2019 and 82% in 2020.

Similarly in New Zealand, confidence in capital markets sat at 86% and NZX-listed companies at 86%. Previously confidence in capital markets was at 85% in 2019 and 83% in 2020 and confidence in publicly listed companies at 83% in 2019 and 80% in 2020. E

Australia and New Zealand investor confidence in markets, companies and audit



An estate planning plea

By Peter Bobbin, Principal Lawyer, Coleman Greig Lawyers

Death is final, but the memory can live on.

I was reminded of this recently when confirming to a young woman that her father's estranged wife of six years earlier (following a 12-month marriage together) did indeed inherit more than $1,000,000 of his estate. She cried to me that the marriage had broken down almost as soon as it started and after six years of bitter distance, surely the law shouldn't take this away from his three children.

I had to say I am sorry, he was still legally married, that made her his spouse and because he died without a will (intestate), she was lawfully entitled to her share. Apparently, the divorce papers were in his office along with his tax returns and a blank will form. One million dollars was now guaranteed to be leaving the family.

I accepted when she said that her father obviously did not want his ex to inherit. He just never got around to doing it. And that was when she said: "That is how I will be remembering my dad, he just never got around to doing it."

Why do estate planning? And what is it anyway?

It is planning, that is all, just planning, with the plan then put into action, whatever that means for you.

There are three phases to the lifetime wealth cycle: wealth creation, wealth preservation and wealth distribution. We spend our working lives creating our wealth. We employ professionals to develop strategies for protecting that wealth. But so many spend so little time on the most important of all: wealth distribution via a self-crafted and implemented estate plan. There is only one chance to get it right.

Yes, estate planning is about you and I planning for our death and what the legacy that our wealth, whatever that is, will create for others. No matter whether it is a self-drawn will or a full suite of professional documents, the fact that the plan is in place will ensure we are remembered as someone who got it done.

While I congratulate this, I am also of the view that the best estate planning comes from the self-interest perspective. Having my estate plan in place looks after my wife, but what about me as a survivor of her?

Did you know that the most important estate plan for me is what my wife has done or not done? The good part about this plan is that I am still alive!

The most effective estate plan is what others around you have done. Knowing that my son has a competent estate plan in place protects me, otherwise I inherit his wife and their children (my grandchildren). At my age I do not want to start school fees and so on all over again.

Self-interest can and should drive the estate planning process. By looking at estate planning from this perspective, the issues become more real. It is the person who is left behind to whom estate planning matters most. Let this be you.

How to start? That is the most common issue I hear. I say, with a pen, a wad of paper and a bottle of fine wine (or beer or cup of tea). Avoid the lawyer, accountant, and wealth advisor. Just snuggle up with the pen and paper and glass of whatever and write the plan, using a simple what-if scenario.

On the first sheet of paper write down at the top "I am dead". Now write down who is to get what, when and how much of whatever you have or control. Forget about structures and tax, leave that for later.

Now take a good sip of whatever and write down at the top of the next sheet of paper "I am alive, she/he/they are dead". Now express what you want to see happen, now it is all about you because you are alive, this is important.

Now imbibe in another good sip of whatever and write down "both of us are dead". Again, write down who is to get what, when and how much of whatever you have or control.

Time for another good sip of whatever. The next step is to write down who next is dead and plan what you want to see happen. This part can be fun, perhaps it is a son-in-law or maybe a mother-in-law. You can even be single again.

Don't stop yet, take another very good sip of whatever and write down "all of my family is dead" at the top of the next page. As tragic as it may be, it does happen. Now write down who is to get what, when and how much of whatever you have or control. If you miss this part of the plan and it comes to pass: *bona vacantia* happens, everything goes to the Crown.

The collection of wine/beer/tea-stained pages is the estate plan. Now put it into place and test the merits against the structures and taxation issues that exist in your life. Now get professional support.

I have some more to share with you on estate planning, in a Master Class series exclusive to ASA members. Use it if you are starting out. Use it to check what you have already done. The important thing is to get the estate planning done.

How will you be remembered?

How will your life be affected by the death of another, and how will you be remembering them?

Peter will also present to members about the importance of estate planning on 16 September 2021 via a webinar and you can register at https://www.australianshareholders.com.au/webinars

ASA and Peter Bobbin have worked together to make available an Estate Planning Masterclass that is available to purchase at https://www.australianshareholders.com.au/Public/Education_events/Masterclass-EstatePlanning.aspx

Transition to retirement pensions – alive and well

By Tracey Scotchbrook, Policy Manager, SMSF Association

In 2017, significant changes were made to superannuation pensions and their associated tax concessions. As a result, transition to retirement pensions seemingly lost some of their shine.

Previously, transition to retirement pensions had been actively used in pre-retirement and tax planning strategies. This was largely due to the tax-free treatment of income, including capital gains, earned from assets supporting the pension. Since 1 July 2017, this tax exemption has been removed for transition to retirement pensions and as a result many thought this was the end for transition to retirement pensions. Indeed, for many people the purpose and strategy for having one was no longer viable.

Despite the loss of the tax concessions, transition to retirement pensions have a role to play and can still be a valuable tool when used in the right circumstances.

What are they?

The original purpose of transition to retirement pensions was to provide a top up source of income for people who have started to make the transition from full time work to retirement. For some, this will be a stepped approach to retirement through the reduction of their working hours or days over time.

Transition to retirement pensions are limited to people who have reached their preservation age. This is the age you can first access your superannuation, subject to meeting certain conditions. Your preservation age depends on when you were born and ranges from age 55 to 60.

A minimum pension payment must be taken each year. For members aged less than 65, the minimum pension rate is normally 4% a year. Due to Covid-19, the minimum pension rates are currently reduced by 50%.

Importantly, a maximum pension payment limit of 10% per annum applies.

The minimum and maximum pension payment amounts are calculated using the pension account balance, initially on commencement and thereafter, using the opening balance on 1 July each year. If you commence a pension part way through the year, the minimum pension payment is pro-rated based on the remaining number of days in the financial year.

The pension payment amounts must be strictly adhered to. Payments that do not comply, may instead be classed as early access payments and penalties and additional tax may apply.

If you are aged 60 or over, your transition to retirement pension payments are exempt from personal income tax. However, if you are under 60, any taxable portion of your pension will be taxed at your marginal tax rate, reduced by a 15% tax offset.

If you are under 65, and have not retired, your transition to retirement pension does not count towards your transfer balance cap. This means there is no limit on the amount you can hold in a transition to retirement pension.

Useful Strategies

Besides topping up your income, what are some of the other benefits of having a transition to retirement pension?

They can play a role in your pre-retirement and estate planning strategies.

Quarantine Tax Free Contributions: A transition to retirement pension is still a pension despite its changed tax treatment within the super fund. This means that separate pension accounts can be created within your SMSF. While no accumulation account is present, any tax-free contributions made to the fund, such as non-concessional or small business capital gains tax contributions, can be isolated and then placed into a new tax-free pension.

Recontribution Strategy: Under a traditional recontribution strategy, pension amounts withdrawn are then recontributed back into the SMSF as a tax free non-concessional contribution. This refreshes taxable or substantially taxable components withdrawn to tax free amounts when contributed back into the fund. A new transition to retirement pension can be commenced, securing the tax-free status of the contribution. However, with any contribution strategy, it's important to ensure amounts you contribute do not exceed the contribution caps.

Both of the above strategies are useful in minimising the tax payable by adult children on any death benefits they may receive. They also provide a level of protection against any future government policy changes to the taxation treatment of pensions.

Equalisation of member accounts: Transition to retirement pensions can also be used to equalise member accounts. This can be beneficial for those who may be close to, or over $1.7 million and their spouse on the other hand has a smaller balance.

Shifting amounts from one spouse to another allows for greater tax efficiency in the fund, with both members able to maximise the use of their pension transfer balance caps on retirement. Equalisation can also assist in allowing greater amounts to be retained in the superannuation environment on the death of a spouse.

Like the recontribution strategy, the pension is used to withdraw cash from one member account. Subject to the contribution caps, the proceeds are then re-contributed to their spouse's superannuation account.

Important steps before you retire

If you have a transition to retirement pension, careful planning is essential before retiring or turning 65. At that time, the transition to retirement pension will become a retirement phase pension. Once this occurs the pension will count towards your transfer balance cap and is reportable to the ATO. Penalties apply on amounts in excess of the cap.

A transition to retirement pension in retirement phase will, however, result in the income from assets supporting the pension to become tax free from that point in time onwards. The maximum pension payment cap of 10% is also removed.

While transition to retirement pensions have their benefits, it is important to seek advice from a qualified specialist advisor to determine if this is right for you.

Are your investments exposed to modern slavery?

By Mariana Wheatley, Business Development Manager, Altiorem

Vannak Anan Prum thought he'd be away from his family for two months. Two months became five years before he saw his family again. Seeking work to pay for his wife's hospital bill, Vannak left his Cambodian village for Thailand where he met a man promising that he could earn good money in the fishing industry. Held hostage on a fishing vessel, Vannack lost his freedom while working around the clock and living in unimaginable violence. After a brave escape he told his story of modern slavery.

Unfortunately, an estimated 200,000 migrant workers like Vannak are exploited by the US$6.5 billion Thai fishing industry – an industry that implicates companies around the world in worker exploitation, including Australian supermarkets. However, modern slavery stretches far beyond the fishing industry. The United Nation's International Labour Organization (ILO) estimates that 40.3 million people, including 10 million children, are victims of modern slavery. Modern slavery includes a range of exploitative practices that impede a person's freedom including human trafficking, forced marriage, bonded labour and forced labour. Instances of modern slavery can be hidden within investment portfolios through complex webs of global supply chains.

As an ethical concern and as a financial risk, shareholders should consider their exposure to instances of modern slavery in their investment portfolios. Exploitative labour distorts global markets, undercuts responsible business practices and if left unaddressed, poses substantial reputational and legal risks that may damage commercial relationships.

Australia's *Modern Slavery Act* 2018 requires commercial and not-for-profit entities with an annual consolidated revenue of at least A$100 million to report on the risks of modern slavery in their operations and supply chains. The reporting obligation includes investors, trusts and superannuation funds. High risk industries include agriculture and fishing, apparel, construction and building materials, mining and electronics, but modern slavery can occur in every industry and sector.

In 2019, the Australasian Centre for Corporate Responsibility (ACCR) filed the world's first modern slavery shareholder resolution urging Coles to protect farmworkers from labour exploitation in their supply chains. At the time, there was an estimated 15,000 people considered to be working under illegal working conditions with allegations of modern slavery including severe underpayment, withholding wages, excessive overtime, and threats of physical and sexual violence.

The commercial cleaning sector has also been identified as high risk for exploitative labour practices due to a largely migrant workforce, aggressive price competition and complex sub-contracting arrangements. The ACCR reviewed listed companies in the property sector's reporting under the Modern Slavery Act, including Charter Hall (ASX:CHC), Dexus (ASX:DXS), GPT (ASX:GPT), Mirvac (ASX:MGR), Scentre Group (ASX:SCG), Stockland (ASX:SGP), and Vicinity Centres (ASX:VCX). It found that while all companies have made commitments to eradicate modern slavery, these commitments risk becoming little more than baseless box ticking without companies implementing effective steps to identify, assess, implement changes, and rectify harms across business operations and supply chains.

Companies that fail to ensure labour rights and implement policies and meaningful actions to address modern slavery across their supply chains face increased risks that can impact investment returns over time. Poor labour practices and poor health and safety practices in supply chains are recognised as material risks to long-term investment portfolio performance. Reports of modern slavery can see share prices plunge as occurred last year after fashion retailer Boohoo was found to be severely underpaying wages. However, companies within the fashion industry that source sustainably have been shown to enjoy improved employee and customer loyalty. As stakeholder pressure continues to mount, companies with business models that are founded on poor supply chain labour practices are likely to face increasing unanticipated costs through the risk of industrial action and increased regulation. Companies that ensure sound labour standards across their supply chain create long-term value.

Ending the exploitation of people like Vannack will take a sustained effort by business, investors, governments, and consumers. While companies ultimately have the largest responsibility to ensure their operations and supply chains respect human rights, shareholders can reduce exposure to modern slavery in their portfolios by keeping an eye out for shareholder resolutions on labour exploitation and asking questions about companies' supply chains. For guidance, see Investor toolkit: Human rights with focus on supply chains. To learn more about the leaders and laggards when it comes to supply chain transparency and human rights see the Australian Council of Superannuation Investors' comparison of S&P/ASX200 modern slavery reporting and the Corporate Human Rights Benchmark assessment of the world's largest companies' human rights impacts. Holding companies accountable and investing in companies that respect human rights will help build a future where everyone has access to safe and decent work.

Stay updated on the latest modern slavery research by joining Altiorem, a community built, freely available library which supports its members to create a sustainable and ethical financial system.

A blow off top case study: amazon

By Jake Lees, ASA Finance Intern

We've all seen stocks where the price has skyrocketed only to suddenly reverse and rapidly fall back to earth. This phenomenon is known as a "blow-off top".

The reason for these price changes is usually due to speculation or unexpected positive company news. The blow-off top may also be referred to as a blow-off move or exhaustion move. A blow-off top can occur in all markets and can impact stocks, futures, commodities, bonds, and currencies.

Indications of a blow-off top

1. The stock has a massive uptrend with no real pullback:

If certain stocks are about to "blow-off", a good first indication is if the stock price rises, with little pullbacks. These rises may last weeks with exceptional gains, so understanding what position to take and when to execute it, is vital to avoid significant losses.

2. Downtrend with significant volume:

An indication that the stock is in the decline stage of the blow-off top is when the stock starts losing traction and begins to fall in price, as more and more people are beginning to sell and take profits off the table as they see the stock is becoming overvalued. During the reversal stage, it is only recognised as a blow-off top after four or five days of continuous decline. When a stock is rising rapidly, it is quite normal to see price pullbacks for a few days, before rising further again.

3. The broad market is mirroring:

Blow-off tops are often exacerbated by wider market conditions, which means that a broad market sell-off could lead to a further decrease in price. If you see a stock that is going through a major top, you should analyse the broader market to see if it is experiencing similar trends, as this may be an indication of a developing bull market. If the broader market begins a bear phase, the stock that experienced a top, may be in for a blow-off.

4. The pullback from the top is vicious:

After many buyers in the market catapult the stock to its peak, the market runs out of new investors willing to step in at elevated prices. The resultant decline and rapid fall to the bottom indicates a blow-off, where investors try to sell with no buyers willing to buy, and this is the reason for the price bubble to burst. During the reversal, as people are panic selling, slippage is created as the price is moving so fast. Therefore, it is exceptionally hard for long positions to sell their stocks and this results in traders being locked in to losing positions.

5. Price and volume on the counter-rally are non-existent:

At the end of the sell-off, there are small counter-rallies with little intent. These investors are looking for small bounces in the price in which they will sell their positions to minimise losses or come out even. This is the stage where traders begin to loosely throw around terms like "dead cat bounce" to instigate these bounces.

A blow-off top case study: Amazon

In the late 1990s, dot-com companies became hot speculatory stocks. During the bubble, the NASDAQ rose 400%, and technology companies' IPOs attracted a lot of demand, sometimes tripling or quadrupling their IPO value on the day. This further fuelled speculation and investment in the technology sector.

The combination of a rapid increase in the stock prices in the information services area of the economy, along with the speculation that these companies would return future profits due to technological advancements (the emotional investment premise), resulted in investors looking past traditional metrics such as the price-earnings ratio, leading to a stock bubble.

In early March 2000, the NASDAQ reached its peak and the bubble burst, falling almost 77% to October 2002. Many people believed that one cause of the dot-com bubble bursting was the tightening monetary policy by the US Federal Reserve.

Fed chair Alen Greenspan warned the markets about their "irrational exuberance" in 1996, but he did not tighten monetary policy at that time. The low interest rates allowed for cheap money and easy capital that venture capitalists were anxious to use to invest in their next big hit. In March 2000, the Fed finally had to tighten the monetary policy due to banks and brokerages investing excess liquidity that the Fed had created in advance of the Y2K bug.

As investment capital began to dry up, so did these technology companies, as panic selling among investors began and the market blow-off commenced. Dot-com companies that reached market capitalisations of hundreds of millions of dollars became worthless in a matter of months, and by the end of 2001, a majority of publicly traded dot-com companies folded, and trillions of dollars invested in the industry, evaporated.

1. The stock has a massive uptrend with no real pullback:

In the space of two quarters, Amazon stock price skyrocketed around 378%, from Q3 1998 at around US$18 to Q1 1999 at around US$86). As seen on the graph at number 1, there was a massive uptrend in Amazon with its stock volume and price increasing rapidly.

2. Downtrend with significant volume:

While there was a small pullback during the decline, Amazon experienced a negative in trading volume in six out of the eight quarters from 1999 to 2001 (see number 3 on graph).

3. The broad market is mirroring:

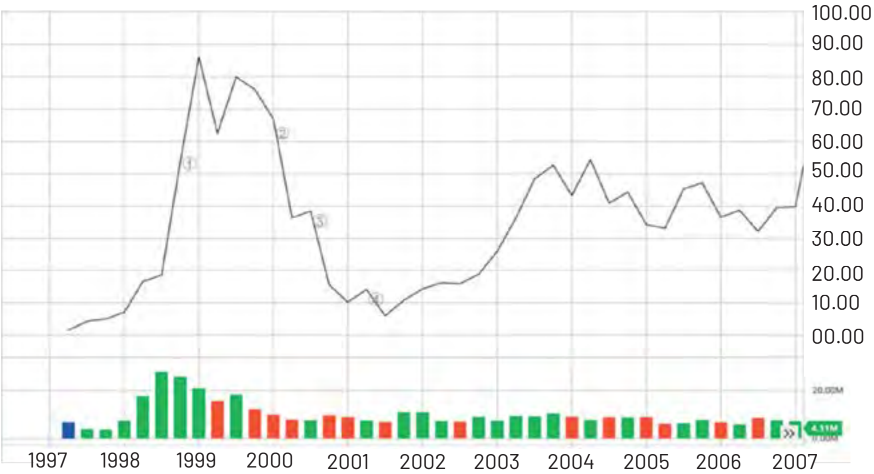
The NASDAQ reached a peak of 5048 index points on the 10th of March 2000 and fell to a trough of 1139 index points in October 2002. Most of the dot-com companies ceased and trillions of dollars invested in the industry were lost.

4. The pullback from the top is vicious:

Amazon's stock tumbled, losing more than 90% of its value in two years. Amazon had a high of $113 at the peak of the bubble which drastically fell to $5.51 in late 2001 (See number 2 on graph).

Now let's use Amazon as an example as a blow-off top to see if the indications above were present at the time.

Amazon.com Inc (AMZN) stock price and volume



5. Price and volume on the counter-rally are non-existent:
There was an increase in trading volume and price after the first quarter in 2001 (see Number 4), but in the second quarter, the price and volume decreased further. This is representative of counter-rallies that created a "dead cat bounce" for investors trying to sell their holdings to minimise losses.

The bottom line

Using these indicators will help investors establish and identify if a stock they are interested in (or already own) is in a blow-off top. If a blow-off top is recognised, investors will be able to sell the stock at the peak stage, or alternatively buy the stock at its subsequent low.

If the investor is burdened with owning shares in a stock that has blown off, the investor has two options: Option 1 is to try to sell off the stock at the bounce and reduce losses. Option 2 is to hold onto the stock in the hope for future growth and returns.

Note that an investment of US$1,000 in Amazon at the peak of the dot-com bubble would be worth US$49,500 today. For sound companies, investors are urged to take a long term view and Amazon illustrates this perfectly. E

Jake Lees is a second year UTS student, studying a Bachelor of Business, majoring in finance and economics. He holds a strong interest in macroeconomics and is enthusiastic about the financial system and markets.

This article was written by Jake Lees during his internship at ASA when many of the conditions prevailing during the late 1990s (just prior to the dot-com crash) – such as cheap money, easy credit, stock market highs and an impending existential threat (Y2K) – frightened the world and echo conditions we face today. John Cowling

Road bumps and opportunities on the way to a cleaner future

By John Cowling, Executive, ASA

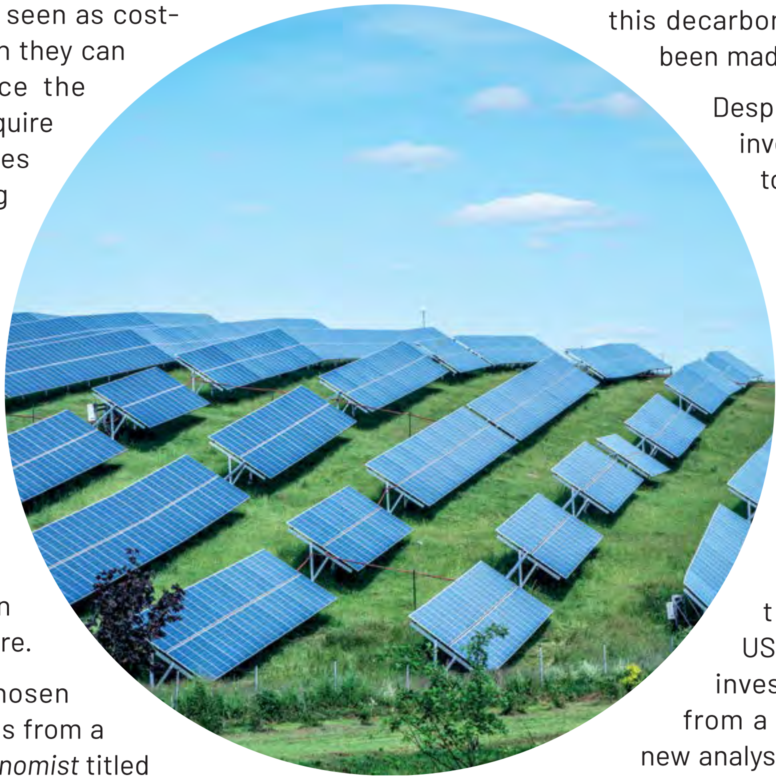
Of late, there is an increased momentum towards green technologies and the decarbonisation drive.

We heard speaker after speaker at the ASA Investor Conference talking about how their company was pursuing decarbonisation strategies. Booms of renewable energy and electric vehicle making are under way across the world.

The reason for this is simple. Governments have said they want to cut greenhouse-gas emissions dramatically. Decades of subsidy and support, along with some inspired entrepreneurialism, have made a range of technologies available and ready to help them do so. The time to push those technologies as hard as possible is now – both to battle rising temperatures and, governments hope, advance their countries' role in a new green economy.

Seventy-three countries, of which Australia seems to be one, have targeted net-zero emissions by 2050.

The fact that wind farms, solar farms and battery-powered vehicles are now seen as cost-competitive does not mean they can be built at whatever pace the politicians choose. They require raw materials – sometimes in huge amounts – siting permits, infrastructure for transmission, recharging stations, and the like. They also need lots of capital. And the necessary materials, sites and capital are all, to various extents in different places, in short supply.



The moral is "be careful what you wish for". It is not all plain sailing towards a green future.

The reason why I have chosen to focus on this topic stems from a recent article from *The Economist* titled "How green bottlenecks threaten the clean energy business". As the article notes, supply-side issues are slowing the drive towards converting our knowledge on clean technologies into physical infrastructures.

From Ecuadorian balsa woods to rare earth mineral deposits worldwide, various factors contribute to the slow growth in these clean energy resources needed for decarbonisation. The sluggish approval rate of projects is another such factor.

According to *The Economist* article, global mining projects typically take 16 years for approval, with land lease approvals in the US taking up to a decade for wind farms. Added to this, governments worldwide can have a penchant for jumbling global-level clean energy goals with local political agendas.

Nevertheless, how do we go about achieving net-zero emissions? Over the next year, the production of renewable energy, electric vehicles, and critical minerals should grow three times, 10 times and 500 times, respectively. Green companies all over the world, like Tesla and Danish national power company, Orsted, and traditional fossil fuel companies, like Exxon Mobil, are raising capital to fund this decarbonisation growth. *The Economist* estimates that only 10% of the investment that is needed for this decarbonisation drive has already been made.

Despite rising interest in green investment, serious attempts to meet the Paris Agreement goals will require a further surge in finance for green energy and electrification. The biggest shortfall in capital investment is in emerging economies (other than China). These countries are expected to account for most of the rise in emissions in the coming decades. And these countries saw just US$150 billion in clean energy investment in 2020, down 8% from a year earlier, according to new analysis from the World Bank. In 2019, India attracted just US$8 billion in clean energy finance, less than a tenth of China's total and a sixth of America's, according to Bloomberg. Other middle income and poor countries saw even less investment.

Rich countries have yet to provide the US$100 billion a year in climate finance they promised developing countries in Paris.

Politicians are now just starting to face these supply constraints. Therefore, achieving net-zero emissions is not going to be as easy as policymakers make it out to be.

Much more complex systems are at play here. I do not intend to discredit the net-zero emissions-based momentum. I am more interested in directing members' attention towards the investment opportunities these supply constraints will provide. Looking at the way by which the world could reach net zero by 2050, the International Energy Authority (IEA) confirmed that a lot of what was needed in the near term could be done with existing technologies. With a rapid expansion of renewable generation and electric cars through the 2020s, electricity and transport could account for more than 70% of the envisaged drop in energy-related emissions.

But to follow this path the world would need to build wind and solar farms over the next 10 years at about four times the pace of 2020. In addition, 60% of the world's new car purchases would have to be electric, compared to about 5% today. Annual clean energy investment, already at an all-time high, would have to exceed US$4 trillion by 2030, three times its average over the past five years. And the market for key minerals needed to build this clean energy products would need to expand nearly seven-fold.

Pointing out the shortages on the finance side, *The Economist* article rightly notes that the lack of transparency in the risk-reward equations among the investors is another bottleneck in the green investment push. How much initiative governments all over the world, including Australia, are willing to take to alleviate this investor anxiety remains to be seen.

Supply-side congestions and investment potentials aside, what of the bigger picture? It is true that most of the technologies needed for achieving net-zero emissions have not yet been created. Just as the post-WW II boom that created our current high standard of living also resulted in the unintended consequences of climate change, what unintended consequences might result from decarbonisation?

Wind farms need balsa wood from Ecuadorian jungles, electric vehicles need lithium and nickel from Australia and South America, and solar cells need crystalline silicon from China.

The supply chains on which this all depends pose at least two big problems. The first is the concentration of the mining and processing of the minerals needed for renewables. They are far more geographically concentrated than the drilling of oil and gas and that should be troubling to anyone with a sense of how the distribution of oil and gas fields has influenced history and geopolitics. Chinese companies control a large share of many crucial mineral supply chains for making batteries, a point anxiously underlined in a review of critical supply chains recently published by the White House.

The second problem concerns underinvestment, particularly in metals. Revenues from coal continue to exceed those from the minerals that are required to support the technologies for providing a cleaner future. Investment in new projects for lithium, nickel and copper were rising before the pandemic, but at less than US$25 billion, the figure in 2019 was only about 5% of the amount invested on oil and gas.

According to *The Economist*, American, European, and Asian politicians are eager to boost mining within their countries' borders. Their citizens may prove less keen (not in my back yard).

Environmental opposition to a rare-earths mine in Greenland helped topple the ruling party in an election there in April. In Minnesota, conservation groups are worried about a proposed copper and nickel mine's effect on creeks and rivers. In May, President Biden's government agreed to reconsider the mine's permits.

The White House review of the supply chain recommends both easing permitting for new mines and limiting their environmental impact. That looks to be a hard balancing act. And we face similar disputes between miners and communities here in Australia.

I propose to write more on this topic in future editions of *EQUITY* and will drill down to some of the investment opportunities for investors as we move to a cleaner future.

Creating an investment plan

By **Rachel Waterhouse**, CEO

Do you have an investment plan? Is it written down, or floating around in your head?

Diving into investing in shares without a plan can be a very expensive way to learn – successful investors know that having a written investing plan is essential.

Yet around a quarter of investors appear to have a take-it-as-it-comes approach to investing, with no real sense of their goals or how they will achieve them.

No matter what your stage of life or investor level may be, clearly defining your strategy (perhaps with input from a qualified financial planner) will put your investment on a solid footing and ensure that you have a good understanding of:

- The objectives of your investing activities.
- The strategies or actions that will determine how you reach your objectives.
- The tactics that you will employ to implement them.

So how do you prepare one? Firstly, identify your financial situation and document your goals, including whether you want to invest in shares or other vehicles.

Next create an investment plan – what you want to invest in, what sectors you'll focus on, how you will weight your portfolio, and how you will mitigate risks. This might sound easy, but it is possibly one of the more difficult things that you'll need to do if your strategy is to be successful.

Let's have a closer look at some of the key components of a plan:

What are your objectives?

The objectives of your share investing plan should be related to one or more of your financial goals.

Let's imagine an investor who wants to accumulate $1 million by the age of 45. To reach this target, she would need to:

- Identify how much she can invest to start with.
- Establish whether that will increase over time, and by how much.
- Determine the rate of return on her capital, and what level of saving she would need, in order to reach that financial goal.

This could then be framed as a more detailed objective, such as:

- Make an initial capital investment if $50,000.
- Increase this capital by $20,000 a year from my salary and other revenue sources.
- Generate a minimum 9% return on my capital each year.

It is important to keep your objective realistic and measurable – a person with a high income and few expenses may be able to deploy $20,000 a year, but someone with an average sized family and dependents may find it harder to find surplus funds to invest.

What strategies will you use?

Your share investing plan should identify strategies to make your investments more closely align with your objectives. This includes considering different types of investments and identifying how you will manage your portfolio and risks.

Some questions to ask yourself may include:

- How much capital are you going to use for your share investing activities?
- How will you allocate this capital to different asset classes? What proportion of your investment will go to each?
- What risks could you face with your investments, and how will you manage them?

Remember that risks may differ depending on your stage in life.

A young investor who is earning a salary can take on more risk and may choose to have a higher exposure to shares. An investor who is a year out from retirement, may want to keep more cash on hand and expose less capital to share investing activities.

When developing your investment plan, you'll need to consider a variety of risks and their implications for your strategy, including:

- **Cycle risk:** You may find it hard to make money if you invest at the top of a cycle. Be aware of the current market cycle to know whether it is time to invest.
- **Specific risk:** Diversifying your investment across market segments or industries could reduce your exposure if a sector were to underperform. Reduce that exposure by determining in your plan what proportion of your investment will sit with each segment.
- **Personal financial risk:** You can increase the returns from your capital if you invest more, and to do this you may need to borrow money. But this can also increase your losses and it creates a liability that you will need to manage. As part of your strategy, you may need to decide whether you want to take on debt (by taking out a margin loan or dipping into your mortgage redraw facility) or limit your investment to available capital.
- **Investment financial risk:** Just as an investor can borrow, so can a company. Highly leveraged companies can expose themselves to greater risks if they don't manage their debts effectively, but they can also deliver increased returns if they do. As an investor, you may need to decide just how leveraged you are willing a company to be before you decide not to purchase shares in it.
- **Liquidity risk:** Some shares are more liquid than others and some investment strategies (particularly those based on borrowed capital) may need to have this flexibility. In addition, if stocks have low liquidity, you may not be able to sell your shares if the company gets into trouble. Depending on the size of your portfolio, you may need to consider developing rules to define the liquidity of the stocks in which you invest to manage this risk.

What are your investment timeframes?

Investment timeframes will differ depending on your financial goals and your stage of life.

Whether you are investing for the short-term (1-3 years), medium-term (4-6 years), or long-term (7+ years), you should consider what impact this may have on your goals and how you will arrange your strategy in response.

What tactics will work for you?

There are several things that you will need to consider as part of your plan.

These can be related back to "income or growth", different ways to analyse shares, portfolio management basics, and deciding whether to buy, hold, or sell, and should include:

- The purpose for investing in different shares – investing for dividends, growth, or a combination – and how much you'll invest in each.
- The method for selecting shares to buy.
- The values you bring to your strategy and how they influence your investment options.
- The type of organisation or vehicle in which you'll invest and what won't be considered – for example, ethical funds, industrial shares, exchange traded funds, listed investment companies, etc.
- How you plan to manage your investments – will you sell, take the dividends, or reinvest to increase your stake?

Review and refine

A share investing plan is not a static document and should be reviewed regularly. You might want to do this by:

- Writing and rewriting your plan after thinking about your objectives, strategies, timeframes, and tactics.
- Tweaking elements of the plan as you learn more to correct errors and fill in gaps.
- Testing the plan by looking at past data or by employing the plan on a limited scale in a real-life market. This is often the best way to learn. When you are comfortable that your plan works, you can decide if you want to increase your exposure.
- Keeping good records, including keeping track of:
  - The financial outcomes of purchasing and selling shares so that you know whether you have been profitable or not. Don't leave it to your accountant to tell you this at the end of the year, as this will be way too late!
  - Your thought process as you make decisions. Keep an electronic diary, so that you can screen capture charts or reports, or to record your own analysis of what you knew when you made the decision.
- Reviewing your decisions behind the share investment plan, as shown in Table 1. This helps you to identify where you need to improve and strategies that you can apply.

Table 1: Have you made the right decisions for the right reasons?

	Wrong reasons	Right reasons
Good decision	A mistake, but you got lucky!	On the right track – develop these skills!
Bad decision	A mistake you need to address.	Tough luck! This is a natural part of investing!

Futureproofing

Investing in shares is a good skill and a wise decision, but like all skills, it needs to be developed.

A well thought out share investment plan, that is regularly revised and tweaked, will help to protect your capital, and deliver additional revenue and growth.

By identifying your goals and objectives; creating your strategies, timeframes, and tactics; and reviewing your decisions regularly and objectively, you are taking sensible steps towards a secure future.

Get Started

Many people put off starting their investing journey until it is too late. But wise investors know the power of accumulation over time. The sooner you start on your investment plan, the sooner you will arrive at your investment destination. In the example above if our hypothetical investor started her plan on the basis outlined at aged 27, she would hit her target by 45 years of age.

If she couldn't afford $20,000 a year after the original $50,000 investment but could afford $10,000 annually, she would hit her target by aged 49. The important thing is to start.

Gross profit as a value measure for technology companies

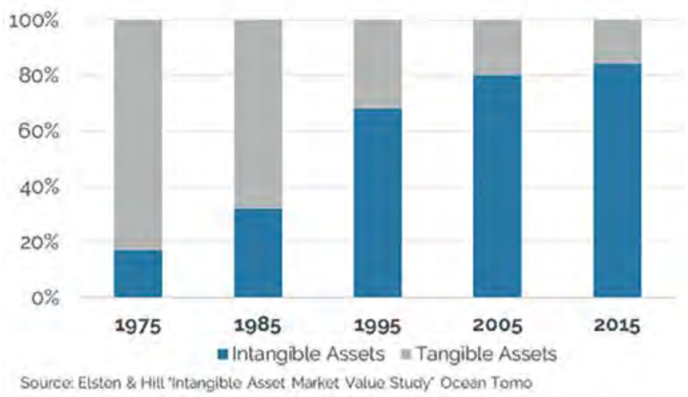
By **Sophie Plumridge,** ASA Queensland intern assisted by State Chair, **Steven Mabb**

Emotion affects all retail investors in their buy/hold/sell decisions. One way to avoid this is to use a rules-based approach. In this article, I develop my own rules-based approach to overcome one of today's biggest headaches for retail investors: "How do we value technology stocks?"

The problem

Advances in technology have caused a substantial shift in the value of intangible assets over tangible assets with intangibles now accounting for 70% of global enterprise value. Figure 1 shows how rapidly intangible assets have dominated S&P 500 companies market values.

Figure 1: Tangible vs. Intangible Componets of S&P 500 Market Value



Source: Distillate Capital Partners LLC. (2019). Value Investing in a Capital-Light World. https://distillatecapital.com/wp-content/uploads/2019/10/Distillate_Value_Investing_Final.pdf

Accounting practices, developed for an industrial age, have failed to align with the advancements in digital technology and accounting for related intangible assets. Intangible value is difficult to quantify and is usually associated with high R&D or marketing expenses. This distorts the efficacy and relevancy of traditional measures such as price-to-earnings (P/E) and earnings per share (EPS). So, how can investors make valuations on intangible asset-heavy companies?

Here, gross profit may be of assistance.

Methodology

Gross profit measures the profit after the cost of goods sold is subtracted from sales. This means large R&D or marketing expenditure will not impact gross profit.

We collected data from 32 intangible asset-based companies and three blue chip companies. Yearly gross profit was obtained from as far back as possible and divided by the number of shares on issue. This produced gross profit per share (GPPS) and the percentage change from each year was calculated. GPPS percentage change was graphed and is represented by the blue lines in our graphs.

Total annual returns per share (TR) and the percentage change from each year was calculated and graphed as the orange line. The relationship between GPPS and total returns change is then shown by a corresponding line graph.

EPS percentage change (grey line) was also calculated and added to the graph to compare GPPS and EPS as value measures.

The outcome

The data produced some interesting results. One trend noticed across multiple companies was the reversion to the mean. GPPS change acted as a stabilised mean in which TR change would revert back to in following years.

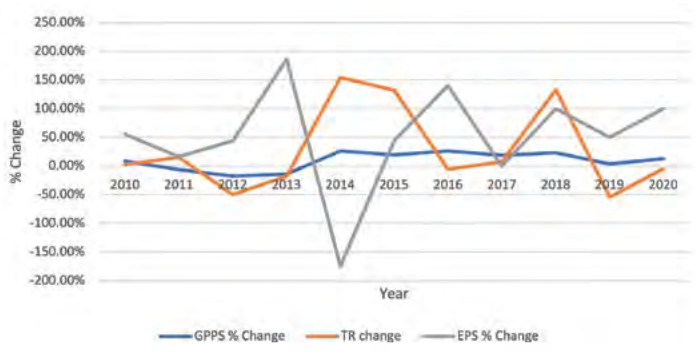
Webjet (ASX:WEB) illustrates this trend. It can be observed in Figure 2 that GPPS change remains relatively stable while TR change fluctuates around it. In 2012, TR change spikes while GPPS change remains modest. WEB seems to be overvalued in 2012 and drops below GPPS change in 2013-14 to compensate. This same phenomenon occurs again in 2016 where TR change spiked and dropped in the following years to revert back to the mean. Consequently, it appears the GPPS-TR relationship indicates when to buy and when to sell WEB shares.

EPS change may suggest an alternative trend where a spike in EPS change generally leads to a spike in TR in the following years. This can be observed in 2014 where EPS change spiked, and TR followed with a similar spike in 2016. Applying both trends suggests that when this research was completed, it was not a good time to think about buying WEB as GPPS was falling, thus lowering the mean, and EPS change would follow. This is indeed what occurred.

Figure 2: Webjet Limited (WEB)

Praemium (ASX:PPS) also seems to follow the same trend. See Figure 3. However, according to the research, this does seem to be a good time to consider buying due to GPPS change as TR change is below the mean, and thus, undervalued under our rules.

Figure 3: Praemium Limited (PPS)



Similar observations were identified in 75% of the 32 companies examined for this research piece. Four of the companies did not follow this trend and four exemplified ambiguous trends due to the limited data (three years or less). When the four companies with limited data are removed from consideration, 24 of the 28 companies supported this trend to some extent and there is an 86% success rate for the system.

Further inspection of the four companies that did not follow the trend revealed that three of these companies (Avita Medical, a2 Milk Company and Bubs Australia) are not technology companies and therefore, GPPS change may only be a relevant value measure for tech companies with primarily intangible assets.

Data on three blue chip stocks from the past five years (CBA, Woodside, and Telstra) was also collected to evaluate the measures on large-scale companies. Observable in Figure 4, Telstra exemplified the same phenomenon where GPPS change acted as a mean on which TR reverted. Telstra, of course, is a telecommunications company where technology innovation is a priority. This supports GPPS change as valid for valuing technology focused companies.

Figure 4: Telstra Corporations Limited (TSL)

Despite not being technology companies, Woodside and CBA also displayed trends that could support GPPS change as a useful measure of value.

The important question, however, is whether the theory is applicable and successful in valuating technology companies. To test the efficacy of GPPS change, a mock investment portfolio using Stock Doctor was completed.

The portfolio results

Methodology

A mock investment of the portfolio tested the hypothesis that GPPS change acts as a mean for which TR change fluctuates around and, thus, identifies when a stock could be considered as over or undervalued.

This was done by choosing to buy, hold, or sell stocks on 1 July for every year according to the following rules:

> If TR change was 10 percentage points or more below GPPS change for that year, that stock was bought.
>
> When TR change was 20 percentage points or more above GPPS change, that stock was sold.

Using these rules, trading was conducted for 30 out of 32 of the companies.

Performance

This portfolio produces a 32.7% dollar weighted return per annum (DWR PA) which is more than three times the return each year on the All Ordinaries since 2009. Out of the 30 companies where trading was conducted using the rules, only seven of them produced negative total returns which equates to a 77% success rate. Indeed, 11 of the companies produced total returns of at least triple the initial investment.

Pointerra (ASX:3DP) produced the highest total return almost 10 times the initial investment. 3DP alone counteracts the losses made in the seven unsuccessful investments. Interestingly, 3DP was bought on 1 July 2011 at 94 cents per share and sold on 1 July 2015 at 86 cents, producing a small loss. This loss would cause typical retail investors emotional distress and would be likely to stop them from purchasing 3DP again. However, by following the portfolios rules, 3DP stocks were bought again in 2018 and now have a current value of over 250% above the purchase price. Clearly, having a rules-based approach and ignoring emotions provided a more favourable outcome. E

Warning: I have tried to develop a rules-based system based on gross profits and a lot more testing needs to be done before I can claim it is reliable.

The above system has been adapted the information from: Elsten, Cate and Hill, Nick, Intangible Asset Market Value Study? (July 27, 2017). les Nouvelles - Journal of the Licensing Executives Society, Volume LII No. 4, September 2017, Available at SSRN: https://ssrn.com/abstract=3009783

Investor behaviour in turbulent times

By Gemma Dale, Director, SMSF and investor Behaviour, nabtrade

With the S&P500, the NASDAQ and the ASX200 at or near record highs, and earnings during reporting season, however strong, just meeting analyst expectations, many are wondering where to next for the market, and their portfolios. While the word "unprecedented" has been thoroughly overused over the past 18 months, history may not be much of a guide to near term market movements – the combination of record fiscal and monetary stimulus and a global pandemic has few, if any, historical precedents. In addition, those who are predicting a market collapse (such as GMO co-founder Jeremy Grantham and Michael Burry, who was made famous predicting the global financial crisis in The Big Short) have been looking painfully wrong for quite some time, and investors who've taken their guidance have missed sizable gains.

Making predictions is always difficult, and getting the exact timing of your prediction right even more so. The best investors in the world – often regarded as such because they accurately predicted one or more cataclysmic collapses and profited handsomely as others lost their fortunes – rarely get it right consistently. That said, there are many indicators worth watching. One of the most interesting is investor behaviour.

There are two schools of thought on investor behaviour. One is the "wisdom of crowds" principle, which posits that markets are made up of individuals making decisions, and the aggregate or average of their decisions is often more accurate than any single expert or individual contributions. Theoretically, if you go with the crowd, you'll be the beneficiary of their collective wisdom. Technical and charting techniques for trading are designed to observe trading trends and invest accordingly. The alternative view, often put forward by value and contrarian investors, is that retail investors are emotional creatures who rarely make good decisions. They get FOMO and join the market rally too late; they panic if the market falls and sell into loss-making positions.

Based on nabtrade data, the principle that retail investors are pro-cyclical in their investing and emotional in their responses to volatility does not hold up particularly well. Following the GFC, when shares fell 55% from their peak in September 2007 to the trough in March 2009, it took over 12 years for the S&P/ASX200 to return to its pre-GFC high (excluding the impact of capital raisings). During this long slow grind back to its highs, investors were enthusiastic buyers of falls in the S&P/ASX200, and loaded up on their favoured stocks when they fell, while trimming or selling positions when prices rose. More broadly, cash levels rose during periods of market strength, and fell during weakness, as investors bought into the market. This was the opposite of what you would expect if the "emotional investor" hypothesis were accurate.

The COVID-19 collapse of early 2020 was the real test for investors after a decade of a sluggish, but broadly resilient bull market – a fall of 30% in three weeks would be more than sufficient to drive anxious investors to sell their stocks if they were not confident of a return to market strength. Instead, trading volumes increased dramatically, with a 4:1 buy:sell ratio as investors took the market sell off as an opportunity to buy shares at a significant discount. Investors were "buying the dip" before it was a meme. Tellingly, cash levels had been rising for many months prior to the market fall, as investors felt share prices were toppy.

Following the dramatic falls of March and April 2020, the market has rebounded in astonishing fashion. nabtrade, and most other brokers, saw an increase of more than 40% in total customers, as hundreds of thousands of Australians bought shares (and to a lesser extent, exchange traded funds) for the first time. New and existing investors continued to be enthusiastic buyers of shares throughout 2020.

A proponent of the "wisdom of crowds" theory could take the behaviour of retail investors as a forward indicator of market movements and feel thoroughly validated in 2020. By hoarding cash prior to the market's collapse (cash balances peaked in February 2020), investors were clearly fearing a downturn. In buying aggressively through the market's fall and bounce, investors also flagged their confidence that the market had been oversold. Correlation is obviously not causation, and it's important not to predict future performance from past successes, but retail investors were highly prescient in their views and behaviour in 2020.

The new year has brought a new challenge for investors – few dips to buy, and with half the country in lockdown, a far less certain economic outlook. With the market at record highs again, how are they responding? In short, they're cautious. Cash levels have returned to and exceeded their previous peaks, and sells have exceeded buys prior to reporting season. Investors have trimmed stocks with the headiest valuations, and are buying blue chips on weakness. There is a clear preference for quality companies with strong reputations and credible earnings outlooks. When investor favourite Afterpay received its all-scrip offer from US giant Square Inc, investors immediately sold down, having little interest in holding an unknown business and preferring to lock in (unusually substantial) profits. The bounce in Telstra shares on the back of a solid result and buyback announcement also resulted in widespread selldowns. Investors are voting with their wallets.

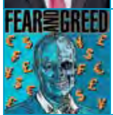
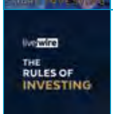
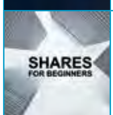
While they remain cautious, investors have also learned that staying invested is the easiest way to make money, and most don't pretend to have a crystal ball. Share holdings are also at record highs. Investors with money in the market and cash in the bank feel most confident in these unprecedented times, ensuring they receive their dividends, take advantage of market gains, and have cash to deploy if opportunities present themselves. If the market falls, it's unlikely investors will be selling into weakness, instead boosting their positions once again. This strategy has worked in their favour so far, and most trust that it will do so in the future.

Top investment podcasts

By Rachel Waterhouse, CEO

Do you like multi-tasking? Do you want to learn more about share investments, but don't have the time to watch a video or webinar? Then why not listen to a podcast?

We put the call out recently to ASA members to tell us which podcasts they find to be the most useful and informative, and we've listed a dozen (in addition to ASA *EQUITY*) that you might like to try.

	**Equity, ASA**	**Phil Muscatello (ASA member)**	**Equity ASA is brought to you by ASA to help you stay informed and to build financial knowledge through current, topical, and expert interviews about investing, corporate governance and the sharemarket.**
	**Australian Investors Podcast**	**Owen Rask**	This weekly podcast, features laid-back, but intelligent short- and long-form conversations about markets, business, psychology, lessons learned, and the investment process.
	**Business Breakdowns**	**Colossus**	This is a series of conversations with investors and operators diving deep into a single business. For each business, they explore its history, business model, competitive advantages, and what makes it tick.
	**Marcus Today**	**Marcus Padley**	Daily market commentary including a daily strategy podcast (limited access for non-subscribers).
	**Fear and Greed**	**Sean Aylmer**	This business podcast sets you up for a successful day. Every weekday morning, get all the business news you need to know in less than 20 minutes from one of Australia's most respected journalists.
	**In the Know**	**Hamish Douglass, Magellan**	A monthly investment podcast that brings you timely, unique, and thought-provoking insights to help you make sense of today's investment landscape.
	**Investing Compass**	**Mark Lamonica and Shani Jayamanne, Morningstar Australia**	The fundamentals of investing, taking a deep dive of concepts, and practical explanations, tools and resources that will allow you to invest confidently.
	**QAV – Investing In Shares and QAV Podcast**	**Cameron Reilly and Tony Kynaston (ASA members)**	Tony Kynaston is a professional value investor and shares his system for successful investing and how to think like a millionaire.
	**The Rules of Investing**	**Patrick Poke, Livewire markets**	Livewire is Australia's fastest-growing investment website, showcasing ideas, analyses, and strategies from hundreds of the country's most respected fund managers and investment professionals.
	**Shares for Beginners**	**Phil Muscatello (ASA member)**	Interviews with industry experts, so you'll learn what to do, what to ask and ideally, how not to lose money. This podcast helps you understand sharemarket terminology and how to make informed decisions.
	**Value-Able the Podcast**	**Roger Montgomery**	Roger covers how to value the best stocks and buy them for less than they are worth.
	**Wealth of Experience**	**Firstlink's Graham Hand and Peter Warnes, Morningstar**	Graham and Peter have worked in financial markets for a combined 99 years (and counting). They bring this experience to building your wealth.
	**Your Wealth**	**Gemma Dale, nabtrade**	A podcast series designed to help you create, build, and grow your wealth.

So, do you agree? If we've missed some, why don't you tell me at rachel.waterhouse@asa.asn.au and we can update the list. You can also find the list here: https://www.podchaser.com/lists/rachel-waterhouse-favourite-investor-podcasts-107aDwCIl1

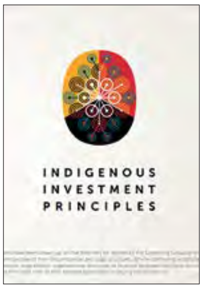
Happy listening!

Research update: ESG issues impacting your investments

By Team Altiorem

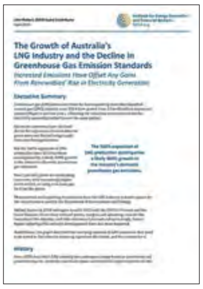
Each month, Altiorem shares its newest and most popular research pieces with ASA members, keeping you up-to-date and hopefully, sparking your interest in some of the pressing ESG issues that are affecting your investments. Its research summaries make it simple to understand key concepts (without being an expert) and thus, make informed decisions and smarter investment choices.

New research on Altiorem



Indigenous investment principles
by Indigenous Business Australia

An investment framework for Indigenous organisations which outlines principles that empower local organisations to take control of their financial assets. It guides thinking about the purpose, governance and investment of financial resources to better protect interests for current and future generations, particularly for culture and heritage.



The growth of Australia's LNG industry and the decline in greenhouse gas emission standards: Increased emissions have offset any gains from renewables' rise in electricity generation
by Institute for Energy Economics and Financial Analysis (IEEFA)

The report discusses the growth of Australia's liquefied natural gas (LNG) industry from 2014-2019, finding significant growth in greenhouse gas (GHG) emissions during this period. It provides a brief history and context of Australia's LNG boom, explains technical aspects of the industry and outlines four factors accounting for GHG growth.

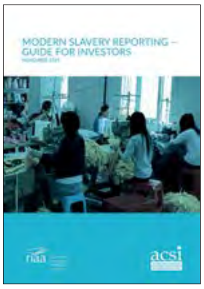
Ethics in the boardroom: A decision-making guide for directors
by The Ethics Centre and Australian Institute of Company Directors

This report guides company directors in making ethical decisions in the boardroom. It seeks to support and strengthen a board's capacity to reason by providing a decision-making framework, key questions to frame board deliberations and practical examples of ethical dilemmas.

Trending Research on Altiorem

Gas and liquefied natural gas price volatility to increase in 2021
by Institute for Energy Economics and Financial Analysis (IEEFA)

Gas and liquefied natural gas prices are expected to experience greater volatility and higher spikes in 2021. This IEEFA research recommends consumers and businesses worldwide to consider reducing their consumption of gas energy as a means of cost-saving and look into cheaper, renewable sources of energy instead.



Modern slavery reporting - Guide for investors
by Australian Councl of Superannuation Investors and Responsible Investment Association Australasia

This report aims to guide reporting entities and investors on the requirements of the Australia's Modern Slavery Act 2018. It informs and provides suggestions to companies and investors on how to identify, manage and reduce the risks and impacts of modern slavery.

Empty nets: How overfishing risks leaving investors stranded
by Asia Research and Engagement and Sea Around Us

The report provides an overview of seafood exposure in equity capital markets, focusing on fishing related risks. This report is written with the purpose of aligning the world's capital markets with sustainable management of fisheries and aquaculture.

Altiorem is the world's first community-built sustainable finance library. Its free online library supports investors interested in long-term performance and the allocation of capital towards a flourishing economy, society and environment.

We believe Altiorem can help ASA members better incorporate sustainability issues when investing and voting. Head over to Altiorem and become a member at **www.altiorem.org**. Membership is free and includes access to all research, and soon we will be offering webinars, e-books and more benefits for members.

Brickbats

To **Gasfields** (ASX:GFS). GFS was one of 10 companies prosecuted by ASIC between 1 January and 30 June 2021 for failing to comply with its obligations to lodge financial reports. GFS was convicted and fined $3,000 for failing to lodge its annual financial report for 2019 and half-year report ending 31 December 2019.

To the **Hon. Josh Frydenberg MP** for watering down continuous disclosure laws. Previously, investors only had to prove that a company had failed to disclose information to the market, regardless of intention. This meant that all directors had to be aware of what was happening and were liable for the consequences. The government's new rules limit that liability only to areas where the directors had knowledge, were reckless or were negligent. This restricts the ability of shareholders to take action against directors or companies that failed to properly inform the market and denies them justice.

Bouquets

To **ASIC** which compelled six of Australia's largest banking and financial services institutions to pay or offer a total of $1.86 billion in compensation to customers who suffered loss or detriment because of fees for no service misconduct or non-compliance advice.

To **Watermark** and the **Governance Institute** for their 2021 Board Diversity Index. The Index contains analysis on gender, cultural background, skills/experience, age, tenure, and independence of S&P/ASX300 directors. The last 12 months have seen a significant shift, with approximately 33% of all director positions in S&P/ASX200 companies now female. On the current trajectory, the study predicts that there should be no S&P/ASX 300 companies without a female director by 2026, and gender parity should be achieved in the boardroom by 2030.

Members are welcome to send in their suggestions to equity@asa.asn.au. Comments included here do not necessarily reflect those of all members.

Letters to the Editor

Hi Rachel,

Congratulations on your new position as ASA CEO.

In your introductory letter "From the CEO Designate" in August's *EQUITY* magazine, you encouraged us to provide feedback about ASA activities and topics members would like covered in *EQUITY*.

My primary interests are:

- **The macro-economic view.** That is, information that reviews trends in local and world economics and projects future outcomes. *EQUITY* does provide some information in this area, and I see several webinars that I have yet to view cover this subject quite well.
- **Information about a particular company and investing in it.** I value the briefings in *EQUITY* from ASA representatives who attend company AGMs. More specific information about companies is discussed at ASA local member meetings where I do find occasionally some good information is provided.
- **Personal stories on investing strategies.** I don't feel this is covered very well in *EQUITY* although I will say that I highly value John Cowling's articles and his presentations at ASA local member meetings about his personal investment strategies and experiences.

So, for me, I would like to see:

- More specific information about companies. More than just reading the financial data. I really want to know how this company makes its money, what makes it tick, what type of people run it etc. A SWOT analysis would be great.
- More personal stories about investment approaches. What went well, what they learnt, what they would do differently next time etc.
- More energised and focused local member meetings. I am an advocate of Knowledge Cafés and often thought this would be a good model to try out at a local member meeting. See:https://conversational-leadership.net/knowledge-cafe-process/

I wish you good luck with your ongoing work.

Best Regards,

Paul Bodie

Hi Paul,

Thank you for sharing your thoughts. Feedback like this really helps us to understand where we should be focusing.

There is a lot here that we will consider for future issues of *EQUITY* and webinar topics.

To start, this edition we've featured a domestic market outlook from Gemma Day, nabtrade.

We're currently looking at some options to provide macroeconomic updates throughout the year and we'll be including a December year-in-review from our members to see what worked for them during 2021 and what they will do differently in 2022.

I really appreciate you reaching out to me.

Kind regards,

Rachel Waterhouse CEO

ALS LIMITED AGM (ALQ)

1 year chart

MONITORS: Kelly Buchanan, assisted by Andrew Higgs

Date	28 July 2021
Venue	Online via Lumi Platform
Attendees	83
ASA proxies	1.73m shares from 56 shareholders
Value of proxies	$21.4m
Proxies voted	Yes, on a poll
Market cap	$6,049m – on day of meeting
Pre-AGM meeting	Yes, with company secretary Michael Pearson and investor relations head Simon Star

Sewerage testing buoys safety and profits during pandemic

Recent lockdowns prevented the planned hybrid meeting. However, everyone made the best of the situation, including the CEO who joined from Houston. The importance of staff and community during the pandemic was highlighted, including ALS's worldwide use of a Portuguese technology to test sewerage for COVID-19.

We commend the group for voluntarily repaying COVID-19 related government net subsidies in Canada of $20.5 million and $3 million in Australia, under their respective JobKeeper programs.

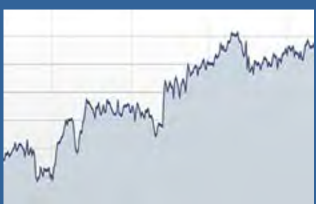
A strong balance sheet means ALS will continue making acquisitions and invest in greenfield expansion. It announced its acquisition of European pharmaceutical testing business, Nuvisan.

Due to the impact of COVID-19 in the first half, revenue declined by 5% (-0.1% at constant currency) to $1,761 million. Reported revenue rose to $172.6 million, up $44.8 million, with one-off gains in H1 FY20, from the sale of the China business.

ALS also released guidance for H1 FY 2021 (first half of 2022 financial year), expecting 25% growth in sample flow, a very strong increase in underlying profit after tax (UPAT) and a small increase in margins. ALS is focusing on efficiency, expanding its geographical footprint, and maintaining a diversity of businesses in the testing industry.

Shareholders were pleased with the results, re-electing directors by 96-97%, and approving the remuneration report by 98.3%. At the pre-AGM, ASA lobbied for an improved skills matrix in the annual report and our question to the meeting reiterated that stance. We received a positive response from the chairman, who said: "We'll consider that; that's not a bad suggestion."

MACQUARIE AGM (MQG)



1 year chart

MONITORS: Allan Goldin, assisted by Sue Howes

Date	29 July 2021 10:30am
Venue	Online: https://www.macquarie.com/au/en/investors/results.html
Attendees	103 shareholders/proxy and 106 visitors
ASA proxies	467,436 from 186 shareholders
Value of proxies	$73.45m
Proxies voted	Yes, on a poll
Market cap	$57,665m
Pre-AGM meeting	Yes, with chair Peter Warne

A tale of two COVID halves

During the AGM, the chair and CEO addresses were informative and provided a detailed overview, including:

- The recent explosion in chemical infrastructure assets in Germany.
- Board and management's focus this year on embedding principles and purpose.
- Longstanding fundamentals mean group is well positioned to manage with COVID-19.
- APRA, regulatory issues, and changes, particularly reporting.
- Capital: shares issued for staff MEREP and Tier 2 capital to enhance loss absorbing capital and to support growth. Update to dividend payout ratio policy to 50-70% from 60-80%, which likely signals under 60% given recent dividends.
- Uncertain guidance for the coming year.
- Texas winter storm in just two weeks substantially increased profits.

Questions were asked by a range of shareholders covering:

- Nuix: Considerable shareholder anger given reliance on Macquarie's reputation when participating in IPOs. Macquarie recently examined pre-IPO accounts and they met all standards. Company is aligned with investors as it is still largest shareholder of Nuix. Details provided around role and awareness regarding issues, seen as unforeseen circumstances. Macquarie is confident in products and medium-term prospects. IPO gain was not material to accounts.
- Withholding proxies prior to the meeting and votes against a director: ASA and 2.7% voting against Peter Warne due to lack of a succession plan. ASA talked to Rebecca McGrath before AGM. We voted for her based on nothing significant to withhold votes on. The company indicated directors were chosen based on ASX board experience and the replacement of existing skill sets to be lost in near future.
- Chair replacement: Extension of the role because of the level of change in board and COVID-19. Ongoing internal process to find replacement.
- Macquarie remains Australia's largest investor in renewables but is still in transition. Regarding fracking in Beetaloo Basin, Macquarie only owns 5% in the company in question but understands approvals, including native title permissions, complied with. Activists asserted otherwise. Macquarie will review.
- Own funds vs managed funds for investing in opportunities: funds invest with mandates. Attractive opportunities outside mandates, usually early stage, on own books.
- COVID-19 financial support: No JobKeeper. Total of $11.3 billion RBA Term Funding Facility.

No Storms for AusNet Today

AusNet owns and manages three separate energy assets in Victoria, including an electricity transmission network, one of five electricity distribution networks, and one of three gas distribution networks, all of which are regulated.

The meeting respectfully acknowledged the Kulin Nation. It was then announced all proxies were published in advance of the meeting and transcripts of the chair and managing director's addresses were sent to the ASX and were available on the AST website.

The next major announcement was that it was the last year of the current chair, Peter Mason. The majority shareholders agreed the company would retain an independent chair.

ASA was also informed of underpayments in wages, which AusNet disclosed to regulators and the Fair Work Commission. The quantum had not been completed. However, a review is underway.

The estimated cost of a recent storm event is between $26-$31 million with a "pass through" of all reasonable costs. The extent of the damage resulted in assistance being drawn from NSW for the first time. In the 2020 storm, 20% of customers lost power. By comparison, this storm saw 1/3 of the customer base without power, some for a long period of time due to extensive damage and the need to build completely new poles, wires, and connections in some areas.

A question was posed about why interest payments are up when loans are down. The total debt increased, including a Euro hybrid.

ASA voted against re-electing Alan Chan Hang Loon as director. We questioned why there was no policy for directors to hold shares. Robert Milliner, who holds no shares and was nominated for re-election, has all his investments in third party trusts. While some directors have shares, the chair reiterated AusNet has previously considered introducing a policy and strongly believes shareholding does not correlate with a director's performance. Both directors spoke to their re-election.

ASA has continued raising gender diversity with the board, which remains at 22% and below the benchmark of 30%. The principal shareholders from Singapore Power and China State Grid, which together own 51% of AST, have chosen to nominate four male directors. A shareholder asked whether the board would commit to 40% female non-executive directors. There was no commitment.

An increase in total fee pool of non-executive directors resulted in questions about a stagnant board and increased responsibility if the share price and dividends had not shown growth. The chair said the increase was aimed at secession planning and there would be a robust process in a search for a replacement chair.

The grant of equity to the managing director was also unquestioned along with the final three resolutions: the issue of shares 10% pro rata, dividend reinvestment plan, and employee incentive scheme. These are all annual resolutions under the AST constitution.

ASA questioned employee diversity with female participation going backwards. Senior management level was down 11.7% and female engineers down 4%.

The chair referred to executive general manager Jo McConnell who discussed the FY21 gender balanced recruiting and the energised diversity and inclusion 3 People Pillars Plan: attracting, retaining and developing, and flexibility. These were focused on improving female participation.

When Stephen Mayne questioned whether China State Grid would sell down its holdings, the chair would not speculate. Mayne also asked whether a head-hunting firm be involved, and would the next chair be based in Melbourne. The answer was that all would be considered.

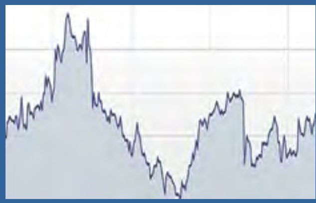
Both ASA and Mayne raised the recently released AER Benchmarking Report 2020 Multilateral Total Factor Productivity Rating. AusNet ranks 11 out of 13 as a distribution network service provider. Managing director Tony Narvaez explained there were many historical factors outside AusNet's control, such as the Alcoa outage.

Another question probed the gas penetration. The City of Yarra is pushing plans for all new developments to have electricity only. The response was that AusNet enjoyed an uptick of gas connections and substitution by electrification was currently prohibited. AusNet has commenced part of the Gas Access Arrangement Review 23/28 submission process.

Outlook statements from the company:

- Dividend guidance of 9.5cps in FY22.
- Targeting $13.5 billion asset base in FY26.
- Forecast net debt to less than 70% by FY26.
- Main projects: working with Victorian government and Australian Energy Market Operator to connect new decentralised energy sources and adapt existing networks to enable flexible grids for transmission and storage.
- Western Victorian Transmission Project: a major project to build a new 190km transmission line to share renewable energy across the network.
- Exploring options for hydrogen as a founding member of Australian Hydrogen Centre.
- Opportunity pipeline of 8000MW in renewable projects (wind 4500, solar 1300, storage 2000 & other 200).

AUSNET SERVICES AGM (AST)



1 year chart

MONITORS: Christine Haydon, Mike Robey, and Richele Janjatovic

Date	15 July 2021
Venue	Virtual
Attendees	146
ASA proxies	901,229 from 67 shareholders
Value of proxies	$1.640m
Proxies voted	Yes, on a poll
Market cap	$6.95b
Pre-AGM meeting	Yes, with the chair Peter Mason

AUSTRALIAN EQUITIES

Portfolios expertly managed by Ron Shamgar using both value and growth investing principles.
Featuring down side protection.

TAMIM Fund: Australia All Cap

Investing in quality companies using both value and growth principles. Importantly, the portfolio is able to buy Australian stocks wherever they see value - whether they are large, mid or small caps.

12 Months: ***57.56%***
Since inception: ***18.96%*** ***p.a.***

At 30 June 2021. Inception: 31 Dec 2016.
Net of all fees.

TAMIM Fund: Australia Small Cap Income

A portfolio structured around two key themes: 1) Strong businesses with value and growth characteristics; and 2) Cash generating businesses paying regular dividends.

12 Months: ***65.67%***
Since inception: ***22.09%*** ***p.a.***

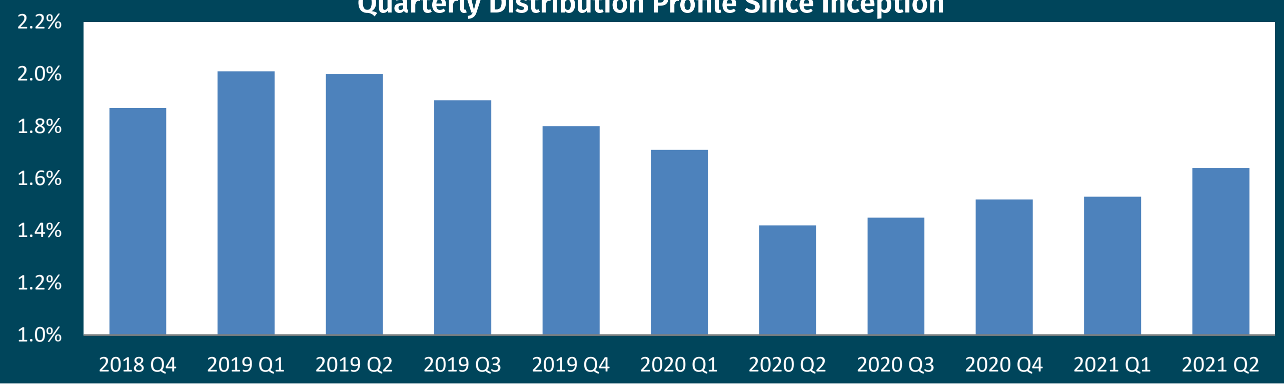
At 30 June 2021. Inception: 1 Jan 2019.
Net of all fees.

CREDIT

A portfolio of private debt and other credit opportunities built with the aim of generating a steady, consistent interest income stream for investors while also seeking to preserve capital.

Secure & Backed by Property: portfolio is made up of almost 70% senior secured loans diversified across a number of industries.
Steady & Stable: portfolio has delivered a stable and steady distribution every quarter since inception. ***The fund has only had 1 negative month in 33.***
Uncorrelated: provides exposure to steady and stable returns with low correlation to the share market.
Access to Exclusive Opportunities: exposure to a select universe of investments usually reserved for ultra-high net worth individuals.

TAMIM Fund: Credit
Quarterly Distribution Profile Since Inception



TAMIM Fund:

Australia All Cap	**Aus Small Cap Income**	**Global Mobility**
Global High Conviction	**Asia Small Companies**	**Credit**