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Wealth investors sidestep a potential banana republic

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Investors are searching for growth in tech-heavy indices such as the Helsinki OMX. Picture: Bloomberg Source: Supplied

BENJAMIN Franklin, the man who designed one of the most commercially successful economic systems in history, famously said that by failing to plan, we are planning to fail.

Contrary to any fable that you may have ever heard, no successful ultra-high-net-worth (UHNW) or family office investor has ever stumbled upon their affluence by chance or luck — their tenacity, dedicated focus and meticulous commitment to following a plan has led to their eventual successes.

These same principles of success apply equally to the economy, which is concerning in that it has become crystal clear that the Australian economy lacks a plan and even the interest in having one.

Within such vacuums, savvy investors may find themselves struggling to align their desired investment outcomes with domestic actualities, which then force them to seek out greater foreign exposures than would otherwise be required.

The recent deluge of US hedge fund and asset managers visiting Sydney and Melbourne exemplifies this point — no one flies from New York to Sydney without some assurance of pent-up customer demand.

This deficiency has been compounded by what Dr Kenneth Rogoff, professor of economics at Harvard, recently referred to as the phenomenon of “celebrity central bankers”.

In simple terms, we no longer need an economic plan anymore, we need a central banker — this is a dangerous notion.

As important as both fiscal and monetary arms of any government are, the lionisation of central banks and their role within global markets has now become disproportionate.

The Reserve Bank of Australia, should rightfully keep a close eye on what’s referred to as the “money zero maturity” measure — gauging liquid money supply within an economy — but should not subdue interest rates to create artificial asset bubbles and the illusion of wealth.

For Australia, this has placed us in the unenviable position of drifting away from the commodities super-cycle and toward the abyss or, as former prime minister Paul Keating put it, a banana republic.

Many industry leaders, market participants and community champions appear to have surrendered their economic stewardship to government and this concerns Australian UHNW and institutional investors, primarily because governments can’t pick winners — only markets can.

The reason for that is clear — real growth comes from technological advancements, human ingenuity and the boosting of productivity through innovation: all of which are precepts of free markets and not the state.

Chief executive of Australian Industry Group and Larkin Group advisory board member Innes Willox believes “the Australian economy is changing gears and big parts are now in the slow lane with little prospect for a quick turnaround”.

Willox highlights that a high-cost, high-wage economy saddled with a relatively high currency, coupled with the resources boom tapering off, construction struggling to gain traction, traditional manufacturing under pressure and slowing government spending impacting on the services sector, means the domestic economy needs to be retooled and rebooted.

“Like any good business, Australia needs to focus on its competitive strengths, intellectual capital and skills base to value add in resources, agriculture and manufacturing to give us the balanced sustainable economy we need with a distinctive competitive edge,” he says. “There is a role for government to build the infrastructure and skills base and reduce the taxation, regulatory and cost burdens on industry to allow business to invest and compete to book the new globally competitor economy we need. Australia may be an island but we can’t afford to be an island economy.”

What further perplexes international observers is that Australia led the way with the first of the two stages of Globalisation during the 1980s which came wedded with requisite sacrifices that were accepted.

Australia then failed to embrace the second stage which would have provided the promised benefits of this new paradigm.

What this meant, in practice, was that the Australian economy withdrew from manufacturing, industrial and heavier industries but then failed to draft any new plan to reallocate ingenuity and resources towards our distinctive competitive edges.

Australian UHNW investors, many of whom accumulated their net wealth via such former industries then diversified through their family offices into global markets, which had embraced the second phase of globalisation; namely China, the US, Germany and Israel.

This helped them balance their portfolios which were overweight domestic real estate, large mining and big four Banking allocations seen along the equity-to-debt capital stack.

For instance, several Australian family offices have looked to Germany's tech start-up sector which aspires to rival Silicon Valley by 2030.

The global investor has tracked this via the German TecDAX, CDAX Technology Return and CDAX Software Return indices alongside the very similar European Copenhagen-SE and OMX-Helsinki indexes.

In Israel, the TA BlueTech-50 index closely follows the Bio-Medical Engineering and highly capitalised IT market leaders found in Tel Aviv's "Silicon Wadi" precinct.

Several Melbourne-based family offices have been significant supporters of Silicon Wadi corporate bonds and structured notes, stretching back to 1994.

This precinct has been referred to as Israel's "Economic Iron Dome" and after many years of private sectoring planning, now represents a core component of their economic success, recognised by Standard and Poor's (S & P) March review.

Australian investment communities can nevertheless take unilateral steps to align their desired investment outcomes with domestic actualities and balance these with a proportionate allocation of foreign investments, priced in Australian dollars.

When our economy decides to retool and reboot, those investors who were savvy enough to balance their current growth prospects with foreign investments, will be well placed to reinvest into the new economy and divest from global markets.

Until such time, a plan to include foreign investments within our portfolio's mix remains wise.

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