TRANSCRIPT – FOUR LESSONS FROM 2018 FOR INVESTORS

INTERVIEW DETAILS

- **Video title –** Four lessons from 2018 for investors
- **Presenters -** Peter Switzer (Founder, Switzer Group) & Paul Rickard (Director, Switzer Group)
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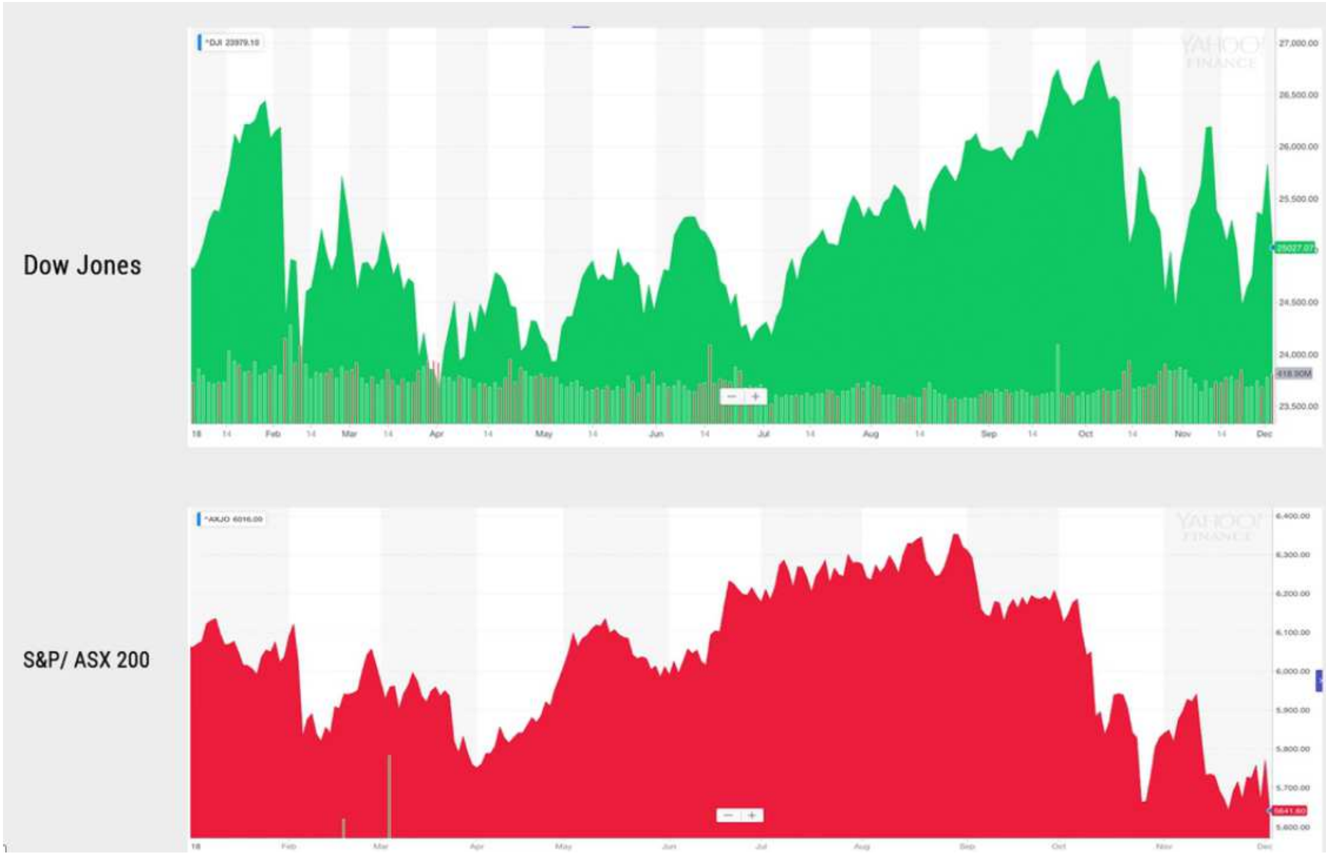
EDITED TRANSCRIPT

Peter: Hello and welcome to Switzer Investing Insights brought to you by nabtrade. And today we're going to look at 2018 and what have been the learnings of that particular investment year. Paul, we're kicking off with two charts, which I think are enormously interesting. One is the Dow Jones year to date and the other is the ASX 200 year to date, and what do you notice about both those charts?



Paul: Well, it's surprising and the correlation is just so close, Peter.

Peter: Yeah.

Paul: And I think that just tells us about the enormous impact President Trump has had on markets-

Peter: Yeah.

Paul: And is likely to continue to have in markets. It's just been ... Compared to any other President before him he has had the ... I can't remember somebody who's been such an influence on what's happened to global stock markets.

Peter: He's a hands-on economic interventionist, isn't he?

Paul: He is.

Peter: The interesting thing, the first big sell off in February, which CNN described as being insane was related to the fact that the user economy was going so hard, so well, inflation was the fear and interest rates were going to rise too quickly. But after that every other selling point had Donald Trump's fingerprints all over it and trade war in particular was a big one. If we go right across the stretch of both those two charts the final selloff from about September, October was related to more concerns about ... and Donald Trump was talking about raising $US500 billion worth of tariffs on China's goods. That really spooked the market.

Peter: Our selloff was more sustained and I think a part of that was because the Royal Commission was biding into bank share prices in particular, but if you look at the year it's been the year of Trump.

Paul: Yeah. And then some other things have probably gone on that chart, Peter, things like for example Trump's influence over the oil price. So, you might recall that the oil price in the U.S. went from $75 a barrel to $50 a barrel just in a couple of months. Really at he's urging for the Saudi's to increase production. We saw the impact here in our energy stocks. We also had the issues with North Korea and the summit in June.

Peter: Yeah.

Paul: And then we had almost the breaking of the US Federal Chair about why's he increasing interest rates.

Peter: Right.

Paul: And surprisingly at the end of the year, no connection, but the US Fed Chair came out and said, well, maybe interest rates are getting close to neutral.

Peter: Yeah.

Paul: So, President Trump's had an enormous impact on markets. And I think that's going to continue into 2019.

Peter: Ah, yes. He is the president that no stock market can ignore. Okay, let's get into the next issue, Paul. And that is government interference here in Australia and its impact on investment decisions.

Paul: Well, you've got interference, but I think some would say more intervention.

Peter: Yeah, true.

Paul: And really they're responding to, I guess, to community concerns. So we saw it obviously first of all with the Royal Commission into banks and the financial services industry. And the success of that Royal Commission, what it found, well how much the public's on side, we've now seen a Royal Commissioner announcing to the age care industry and of course, that had an impact on the age care stocks. Immediately it was announced and it put them under a lot of pressure.

Paul: We're seeing interventionalist discussion around the energy industry. Someone might say this is the result of AGL's position on the bill power station, but potentially, you have powers for government to arrange with court permission to divestiture of key assets

So it seems to me there's a trend now back to intervention, back to governments being involved, responding to community concerns. I don't think that trends going to continue and so.

Peter: Discontinue, it's going to keep on going, you mean?

Paul: Yeah, sorry, will continue. So, I think that the political risk, or at least the sovereign risk that investors need to consider now has increased. So if you're investing in different stocks were governments can get involved or depend on government you know, expenditure or whatever it is, regulation, I think that that risk has increased.

Peter: Yeah, and political pundits have made it very clear that energy price is going to be a critical issue of the next election, which is of course, another sovereign risk issue.

Paul: And ahead of that election, it's unlikely we're going to see that intervention go away because you know, there's some populist causes out there.

Peter: Exactly. Okay, the third learning is around the success of the top 20 stocks.

Paul: This one surprised many. On the screen in front of you you can see the performance of the different components of the market for 2018 up to the 30th of November.

The top 20 outperformed

	2018*
ASX 200 Price	-6.6%
ASX 200 Accum	-2.7%
Top 20	-1.2%
Midcap 50	-5.8%
Small Ordinaries	-4.7%

Source: *S&P Dow Jones Indices (as at 30 November 2018)*

Look the main market, ASX 200, it's down. Add back dividends, it's not down as much, it's down about 2.7%. But look, the top 20 stocks at least, on a relative basis, have outperformed. They're not as ... the difference I relatively small, Peter, but they have outperformed, better than the small ordinaries, which are your small caps and your so called mid caps as well.

Paul: And that one surprised many, is surprised me when I looked at the figures because in that top 20, of course, we have our four major banks in positions one, three, fifth and sixth in terms of the bigger stocks.

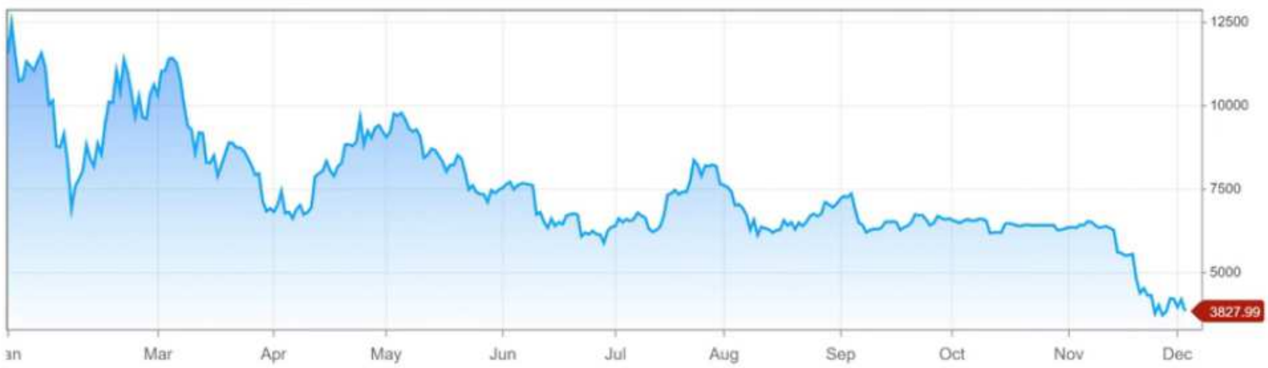
And they've had a pretty tough year. So it means that the rest of the top 20, the resources stocks, the Wesfamers and Woolworths, some of the medical companies have done pretty well and perhaps shows you where the money has actually moved. So, in some ways, perhaps, it's a bit of a mean reversion. The top 20 didn't do as well in 2016 and 17-

But I think what we're starting to see in a more defensive environment, the top 20 stocks will do better and maybe looking ahead next year where the Royal Commission winds up, we might see, again, continue outperformance.

Peter: Okay, so finally, we can't ignore, in 2018, the learnings from bitcoin.

Paul: Yeah, look, I think the learning here is about crazes, Peter, we know that they happen. I'm not initially a big bear on cryptocurrencies, but just before Christmas last year, bitcoin got almost a US $20,000. Bitcoin, it finishes the year just below $4,000. That's a huge fall. And it just does tell you that all good things, all crazes come to an end at some point. And the issue is when you jump off them. [crosstalk 00:05:52] so if you're going invest in things, a little scary, a little high risk like that, you've gotta know when to get off.

Bitcoin (USD) - Coinbase



Source: CNBC

Peter: Making it short term. Now, what's up next year? What's the craze for next year?

Paul: Look, I'm not really sure, Peter. There will be one. I think it probably will be, there will be one in tech and then we'll probably find another rare earth mineral or something that no one's thought of yet, but there always are things that get overhyped. And the lesson here for investors is you have to separate the hype from the what's going on out there and when not to stay away, get off the bus, leave something for the next man.

Peter: Okay. That's Switzer Investing Insights brought to you by nabtrade, thanks for joining us. **END OF VIDEO.**