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Future Shock

Alternative strategies within Australian equities

Robert Hook – SG Hiscock & Company

A state of "shattering stress and disorientation resulting from too much change in too short a period of time" … Alvin Toffler 1970

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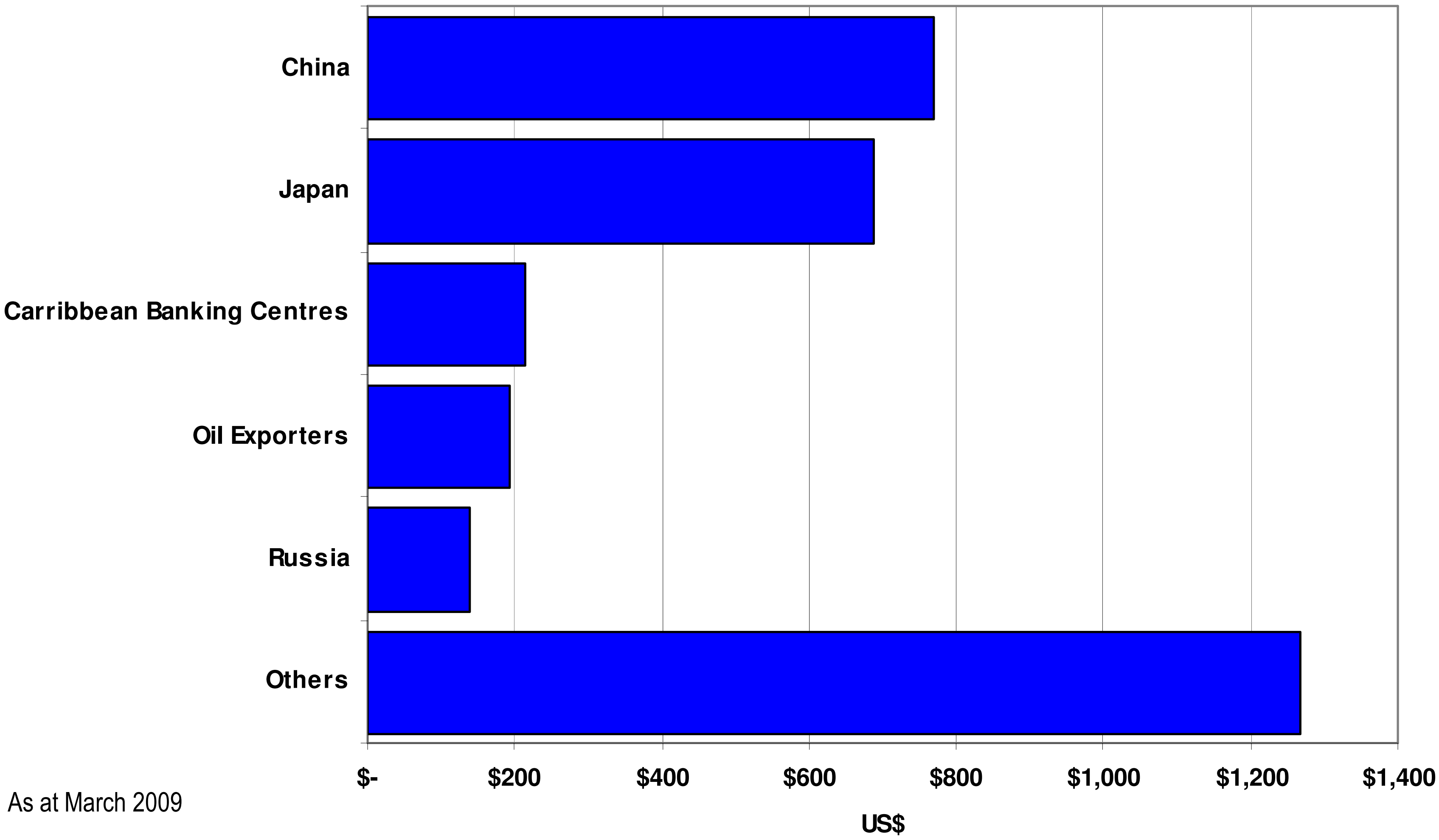
The Greenspan era (1987 – 2006)

- The abandonment of principals
  - Crash of 1987
  - Long term capital management
  - Tech wreck (March 2000)
  - 9/11 (September 11th)

Creation of leverage through exotic investments

Major foreign holders of treasury securities



As at March 2009

Department of the Treasury / Federal Reserve Board

Government response

- Hedge funds, wall street bankers and offshore tax havens… deregulation, greed and short selling

- Move to further regulation - the sacrifice of liberty
- Stabilise banking system
- Global fiscal stimuli / borrowing or printing money - the sacrifice of discipline

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Capitalism and the place of free enterprise

- Adam Smith believed in ***maximisation*** of profits
- Post war economics has driven more towards an ***optimisation*** of profits and greater partnership
- (Excess) regulation has meant that morality has been replaced by legality
- Led to an attitude of legal disenfranchisement

“A very wise man does not play leapfrog with a unicorn”

Anon

What is a trillion?

- 1million seconds =
  - 11½ days - A newborn baby
- 1billion seconds =
  - 31.7 years - Most of us can remember
- 1trillion seconds = ?
  - **31,709.8 years - Back to the ice age**

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From fiscal prudence to a fiscal black hole
Massive global stimulation

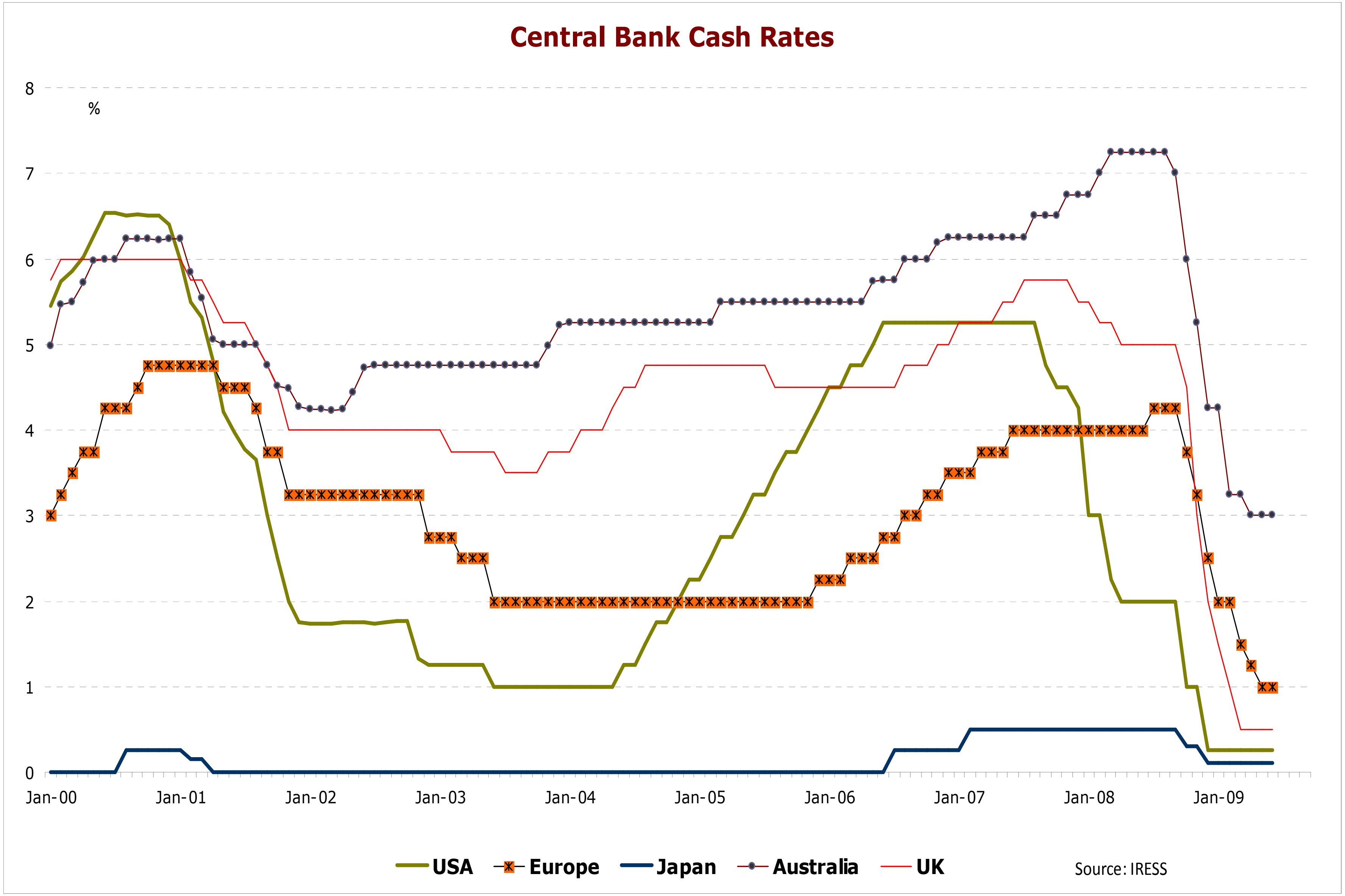
US	US$700bn TARP (Troubled Assets Relief Program) US$860bn fiscal stimulus
UK	GBP1.3tr deficit by 2011/13
Japan/China	±US$700bn massive fiscal stimulation
Australia	+AUD$300bn deficit

Consequences

1. Market recovers

2. LIBOR moves to normal

3. Budgets blow out



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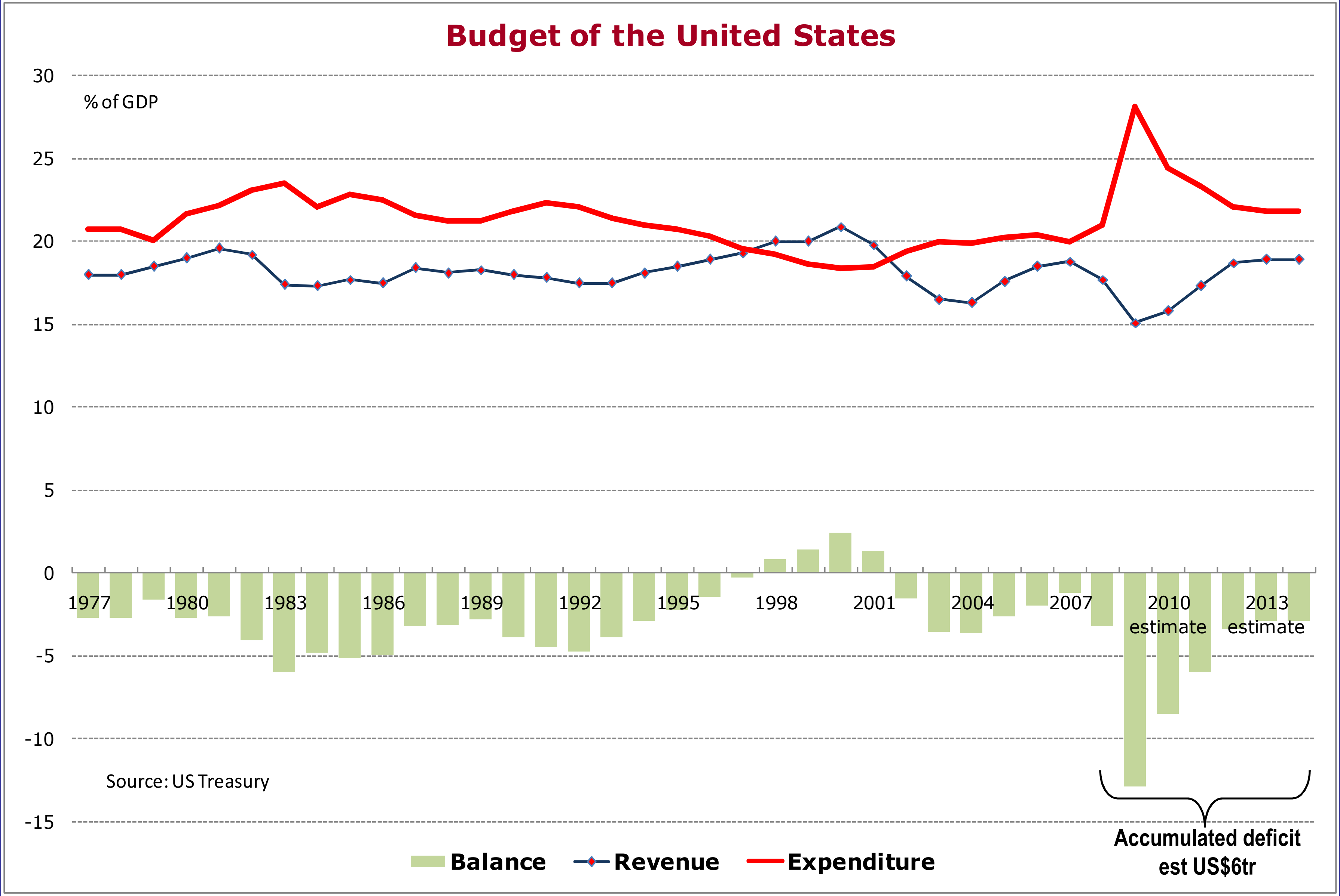

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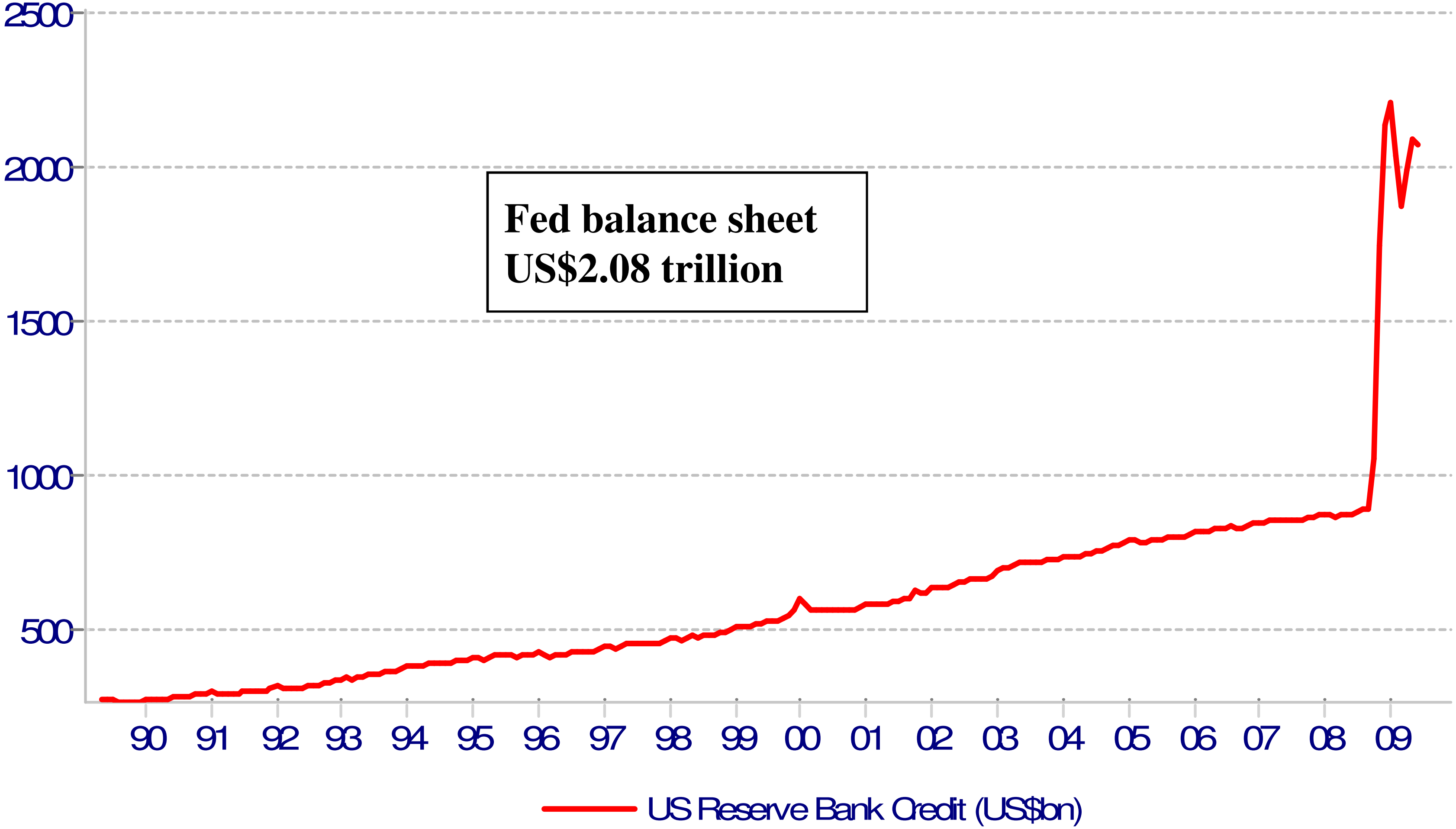
US Reserve Bank Credit



Source: US Fed

A taxing time

- Collapse in government sources of income and the search to supplement the shortfall
  - To tax individuals / companies / miners
  - To borrow money from savers
  - To print money

How will it end?

- A limit to taxation
- Globally, governments will not be able to service their debts
- Demand by government for debt soars, but Central Banks will have to effectively buy debt to keep interest rates from rising.

Hence *money* is *printed*

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The end game

- Over regulation and more government control
- Debasement of debt / currency against hard assets
- Governments become more desperate
  - Robbing the honey pot
  - Over regulation
  - Superannuation & pensions

Conclusion

- Next few years will see the role of governments become more intrusive
- Volatility of equity markets will increase
- Economies burdened by debt will see a slow recovery by the consumer
- Governments will inflate debt away

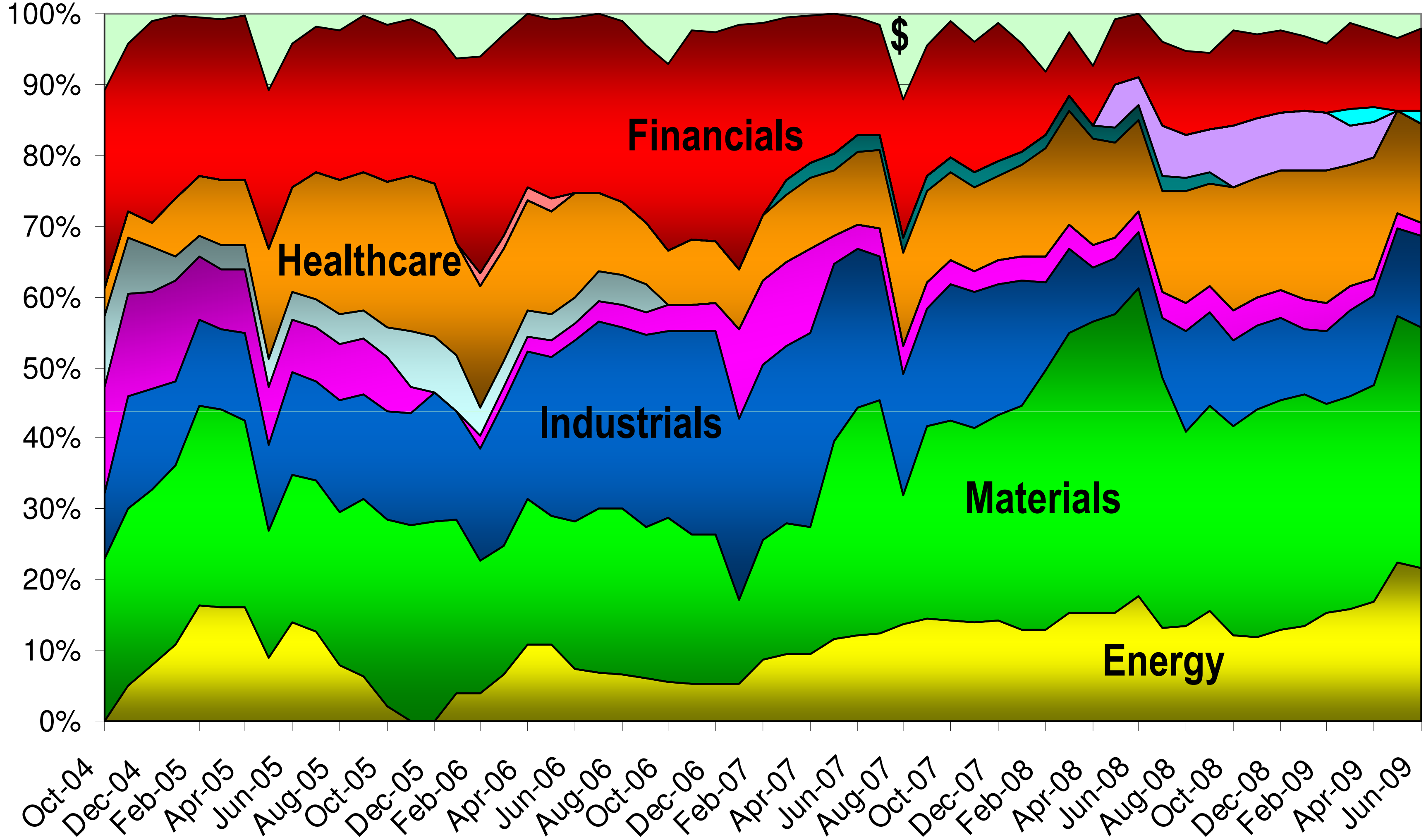
An alternative approach

- Stock picker
  - As much about avoiding stocks as finding them
- Index unaware
  - Seek profitable sectors
- Accumulate hard assets/shares (commodities, gold, property, etc)

What is SGH20?

- Australian equities portfolio (long-only) holding 15 to 25 companies
- Concentrated, high-conviction portfolio
- Sound, logical investment philosophy
- Targeting alpha via stock selection not asset allocation
- Superior, risk adjusted returns
- Portfolio managed for after-tax returns
- Combine *quantitative* (*the science*) with *qualitative* analysis (*the art*)

SGH20 Sector Weights since inception



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On a rolling 12 month basis, SGH20 had a positive return 35 out of 45 periods (78% of the time) and beat the index 36 out of 45 times (80% of the time)

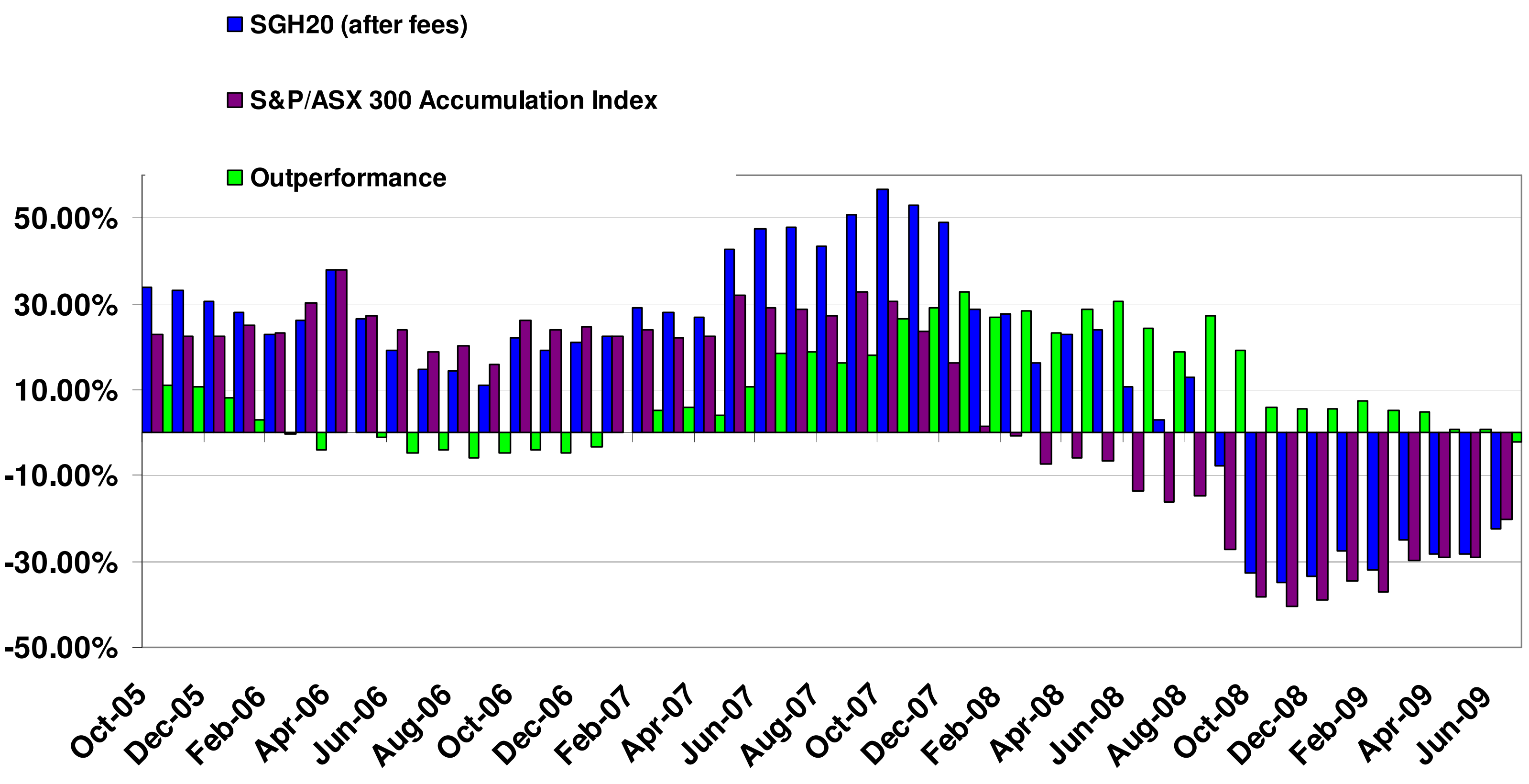
SGH20 returns over time vs Index

All returns are before fees	1 month		3 months		6 months		1 year		2 years		3 years	
	+ve	-ve	+ve	-ve	+ve	-ve	+ve	-ve	+ve	-ve	+ve	-ve
S&P/ASX 300 Accum. Index	36	20	36	18	35	16	28	17	23	10	13	8
SGH20 (Absolute)	40	16	41	13	41	10	35	10	27	6	21	0
SGH20 (Relative)	37	19	40	14	38	13	36	9	33	0	21	0
	56		54		51		45		33		21	

When SGH20 had a worse return than the index, the average underperformance was -3.0%

When SGH20 had a better return than the index, the average outperformance was +14.6%

SGH20 Outperformance per annum
Rolling 12 month returns



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SGH20 - further information

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