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THE WOMEN'S ISSUE

SIX-STEP GUIDE TO GETTING AHEAD
HOW TO REGAIN CONTROL OF YOUR FINANCES
INVESTORS REAP THE DIVERSITY DIVIDEND



PAM WALKLEY
REAL ESTATE
CHALLENGE:
BUY FOR LESS
THAN \$500K



SCOTT PHILLIPS
A DEFENSIVE
STOCK TO
RIDE OUT THE
VOLATILITY



SUSAN HELY
ETF CHECK-UP:
THE BEST
AND WORST
PERFORMERS



Get your portfolio in order

Companies that fit with the government’s political philosophy will help to future-proof your investments

There are some accelerating changes underway in the western political economies, including the US and Australia. As long-term investors, we need to keep one eye on the economic horizon and one on the immediate chaos of the markets.

Our goal is to be informed of the changes underway and then optimise our portfolios accordingly to ensure we successfully navigate the future with as little volatility as possible for the highest possible returns.

It should come as no surprise that the prevailing political philosophy behind a country’s economic policies ultimately create the conditions for the operation of investment markets.

Political philosophy combined with economic policies can also be described as political order. The choice of a political order determines how a nation wishes to manage its economy.

Political order doesn’t change from one election cycle to another, but perhaps once or twice every 100 years. At the core of a political order is the philosophy of how big or small the role of government will be in organising, shaping, and participating in the economy of the nation.

In the past 100 years, America has had two political orders: the New Deal that arose in the 1930s and 1940s, crested in the 1950s and 1960s, and fell in the 1970s; and the neoliberal order that arose in the 1970s and 1980s, crested in the 1990s and 2000s and fell in the 2010s.

Hello, big spenders

The New Deal was an era of “big government” ushered in by the Democrat president Franklin Roosevelt (FDR) between 1933 and 1939. It involved a comprehensive program of economic relief and reform in industry, agriculture, finance, waterpower, labour and housing.

This was FDR’s response to not just resurrect the US economy from the ravages of

the Great Depression of 1929-39, but also reshape the way government was involved in the economy over the long term.

FDR and the New Dealers unleashed the power of the central state in ways rarely done during peace time. Some of this work focused on a highly visible overhaul of the country’s economic infrastructure.

New Dealers built countless roads, bridges, airports, dams, schools and libraries. The federal government placed extensive new controls on the country’s financial system. New Dealers postulated that expenditures well beyond government revenues were a positive good to smooth out the ups and

downs of business cycles, as were the deficits and government borrowings they generated. A large national welfare state emerged for the first time, much of it funded by the New Deal’s commitment to progressive taxation.

When the Republican party took over power in 1952, it did not dismantle the New Deal order. To the contrary, it went harder as it found itself in the middle of an emerging threat from communist Russia. This required the US to be seen as a strong central government able to coordinate its resources to resist the communist threat.

In the 1950s, the US government doubled down on big government and social democratic policies to demonstrate that it was the leader of the “free world” and that it could take better care of its citizens than the communist leaders could provide for theirs.

There are clear similarities here to the current political wedge developing between China on one side, with an authoritarian one-party political system, and the US on the other, with its strong democratic traditions.

The current reshoring of critical supply chains away from China back to the US or friendlier countries such as India is an example of an extending role of government. *The CHIPS and Science Act* in the US to fund the semiconductor industry to widen its lead on China is another example of big government intervention in the context of the US-China cold war. And it doesn’t stop here.

Breath of fresh air

From the mid-1940s to the mid-1960s, the New Deal order rode a wave of global power unlike anything America had experienced before. However, the 1960s and 1970s were the moment of reckoning.

As race and the Vietnam war became the two most important issues in American politics, they created divides among Democratic Party constituents that the New Deal order could not bridge. These divisions were followed by the long economic recession of the 1970s,

3 FUNDS TO WATCH

BNP Paribas C Worldwide Global Equity Trust

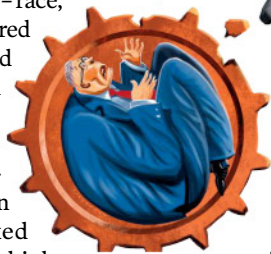
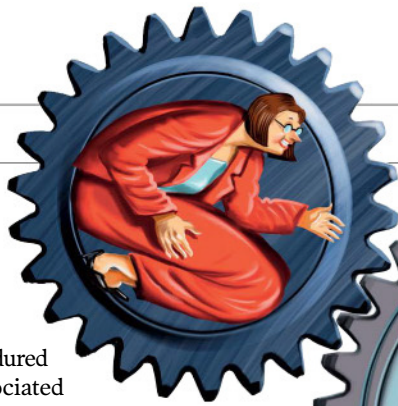
Objective is to achieve long-term capital growth exceeding the return of the market by investing in global equities, combining stable growth companies with thematic picks.

Invest Better Future Fund (ASX: IMPQ)

Aims to provide attractive levels of capital growth in investments that also contribute positively and sustainably to society and the environment. Invests mostly in Australian and New Zealand listed small and mid cap stocks, to achieve a return greater than the S&P/ASX Small Ordinaries Accumulation Index.

Global X Semiconductor ETF (ASX: SEMI)

Seeks to invest in companies that stand to potentially benefit from the broader adoption of tech-enabled devices requiring semiconductors. This includes the development and manufacturing of semiconductors themselves.



whose consequences endured because they were associated with underlying changes in the world economy, where resource-rich countries started wielding economic power and brought serious economic damage from steep rises in energy prices.

Those were the years of “poly crises” (a series of crises). These three forces – race, Vietnam and economic decline – battered the New Deal order in the 1960s and 1970s beyond a point where it could repair itself.

By the 1970s, the big government political order led to a stale and stagnant US (and other major western economies) with high tariffs, fixed exchange rates, high union power, high unemployment, unproductive labour practices and closed economies.

A breath of fresh air and seed of economic re-invigoration was sowed from the election of the Republican president Ronald Reagan in 1981. Reagan began to implement his neoliberal vision for American life across a broad front: deregulating the economy; stripping the government of power and resources; reshaping the courts and their jurisprudence; and establishing new rules to “free” political conversation from the grip of the establishment.

Markets enjoy freedom

The collapse of the Soviet Union was complete by 1992 and it further cleared the way for markets to be freed of the shackles of government regulations. The contest of big government of the free world and the big government of the Soviet Union was now over.

The 1990s and 2000s were the free-rein neoliberal years, with the wave of de-regulation continuing as inefficient and stagnant public assets became privatised. New private investments were encouraged across industry and sectors to lift productivity and innovation.

Financial markets became increasingly innovative under George Bush II. However, excessive debt built up in the housing market in the US led to the 2008-09 GFC, which was serious enough to bring down the financial system. This was the moment of reckoning for the neoliberal order, which by this time had a 30-year run. Serious cracks appeared

in the new liberal order as people questioned the ability of free markets to self-correct.

The GFC was a big setback to the free-market order as governments and central banks had to step in to underwrite the viability of banks and financial markets and to a level that was unprecedented financially.

The post-GFC years have been one of low growth and political indirection and drift in the US and Australia. The revolving door of prime ministers in Australia in the past few years was symptomatic of stagnation and lack of vision for the country and economy.

The economic inequality that had become a defining feature of the American economy since the 1980s continued to widen. And the consequences of that chasm were hardening.

Here we go again

Then arrived another major crisis with the Covid-19 pandemic in 2020, once again requiring the government to take centre stage in financially underwriting the economy and ensuring it didn't fall into an abyss.

Most of the public accepted the government's command-and-control role of managing the crisis in return for economic safety and health. The government introduced lockdowns, paid people to stay at home and prevented businesses from collapsing.

The period of economic management during and after Covid meant that the extended role of government in our lives once again reset the social contract between governments and citizens. This social contract has been hardening ever since, as our economy and politics respond to rolling years of poly crisis, including the Ukraine war and

China's increasing military assertiveness.

Additionally, the existential threat of global warming requires a focused, coordinated response from both business and governments. It appears likely that big government will emerge as a significant player in this epic transition to renewable energy. For example, Victoria's Labor government has pledged to take back control of the state's electricity grid to speed up transition to renewables.

These developments, combined with the views of the federal treasurer, Jim Chalmers, who is convinced of the need to redesign markets to better serve the needs of the times, means free markets will increasingly be met with government intervention.

This may include capping the allowed rate of return in some sectors and wage negotiation rules that may drive labour cost inflation in high-services businesses and thus reset margins.

Equally, there will be opportunities for companies that benefit from reshoring and certain strategic industries will attract favourable regulation and funding support.

Labor's share of total income is likely to rise in the 2020s, reversing previous decades of growth in inequality. This is likely to lead to positive economic growth due to Labor's propensity to spend rather than save.

Advanced manufacturing will be part of the big government agenda to compete in a polarised political world. Digitisation of payments will continue to be a priority for big government economies to reduce the black economy, lower transaction costs and raise tax collections.

In the 2020s, active investment management will be essential as investors will need to continue asking which company activities fit with the priorities of governments and which don't. There are great opportunities ahead for investors, as was the case in the New Deal order years of the 50s and 60s.

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