

Future Generation: In conversation with AFR's James Thomson
James Thomson, Jun Bei Liu, Philip King and Geoff Wilson AO
Fund Manager Panel | 26 May 2022

JAMES THOMSON: Good afternoon everybody and welcome back from lunch. I hope your lunchboxes are as delicious as they look. My name is James Thomson. I'm the Chanticleer Columnist at the Australian Financial Review. Thanks to Future Generation for having me along. Got a fantastic panel. Jun Bei Liu from Tribeca who you've met in the previous session is going to talk to us a bit more about the market and stocks and where the world's heading. Phil King is the CIO of Regal Funds Management and is on the cusp, tomorrow Regal is completing its merger all things going correctly, and so we'll hear a little bit more about that. And Geoff Wilson AO from WAM needs no introduction, but it's great to have him on the panel too. You might have read in the Financial Review today on the front of the Companies and Markets page a great story about Mike Baird chairing Future Generation which is very exciting for Future Gen. It's a great photo of Caroline and Geoff and Mike there too. So that's a bit of exciting news to follow. It's great to have three fund managers on stage to talk today. I'm going to ask the same question to all of you to open. It's an extraordinary time Jun Bei. History doesn't necessarily repeat but it often rhymes. Is there a period that what we're going through now reminds you of? Are there moments in history you can latch onto to help explain what's happening today?

JUN BEI LIU: Yes and no. And I was hoping that you would throw the question across to the others because I clearly haven't seen enough cycles compared to Geoff and Phil.

GEOFF WILSON AO: You'll probably do a lot better at it.

JUN BEI LIU: I probably bring the fresh perspective. Look I must say that you know so I went through the GFC and then the following subsequent things and comparing to the experience then and also read up on what happened previously in the 70's 80's and 90's, it really seems like there's really actually a limited space where we can refer this to. In the last few decades we haven't seen much inflation. Inflation is one thing that is really different. And this is one thing that many of us really thought would be temporary. And now what created this temporary disruption or this inflation really is the pandemic and now when the pandemic first hit I would try

to look back and speak to people from previous cycles, not many have gone through a pandemic.

JAMES THOMSON: No not many around in the Spanish flu that we can talk to today.

JUN BEI LIU: That's right. That was the one, the Spanish flu. I was saying gosh how do we read from Spanish flu and what did the share market do then. So look pandemic was unusual. And when it happened all the government has thrown money at it, central banks lowered the interest rate, hopefully the businesses will get through and we did. And so obviously it created quite a lot of access and bubble in a lot of asset classes, so whether it's property, whether it's share market and there's all of that. And then subsequently what happened was because pandemic is such an unusual thing, government locked down certain areas and they opened them and locked down again. This is certainly the experience in Australia. And China is still in lockdown, hard lockdown in many cities. It creates a problem of supply chain, pressure on supply chain. Globalisation over the last three decades or two decades or since the 90's it just simply means that a lot of things has halted and the price has gone up because people can't get the stuff they want to buy. And then people got all money from the government and they want to buy things. So all that has put pressure on the inflation. Now the inflation is high and the thing is we thought once the economy reopens it'll be better by now. But the start stop start stop around the world it just means that's going to be with us much longer. And that is going to put pressure on what's going to happen in the future economic growth. So this is when you put it together we haven't seen it before. But we know based on not just economic theory high inflation means person will have less money to spend. And when you have less money to spend you will create a slowdown in economic activity. And then there'll be less jobs to be created and that means that things will have to slow. So all of that together you kind of go okay this is what's going to happen and central bankers clearly is following ticking the box going okay inflation is too much we need to put interest rate up. And so when the interest rate goes up and inflation is still high well it means the growth will halt. Yeah so you can actually point to some of the economic theory and go well this is going to happen. And that's why we have the share price volatility that is taking place at the moment.

JAMES THOMSON: Phil I think Jun Bei was calling you experienced rather than old but what does this remind you of what we're seeing today?

PHILIP KING: Yeah well it's great to have Geoff here I've got to say 'cause he makes us all look young doesn't he.

GEOFF WILSON AO: No we were put up here, it was the amount of hair. And that's why unfortunately I'm at the end.

PHILIP KING: Look James I've been saying for a while it reminds me very much of when I started my long short investing career 22 years ago. Like then, we've had the huge bubble in tech stocks and growth stocks, and we've entered a bear market. In 2000 I think we had a two and a half year bear market in the NASDAQ (NASDAQ: NDAQ) and the NASDAQ fell 78%. This time the NASDAQ is down I think 30% or so over a six month period. So it reminds me very much of there. There is a lot of people who are younger than me that probably haven't seen a real bear market. Don't want to disrespect journalists but a lot of journalists love to call any sort of correction a bear market. But a bear market is something that lasts a prolonged period of time and actually exhausts the patience of a lot of investors. And that is what I think we're seeing at the moment in tech stocks. I don't think it is going to be as bad as what we saw in 2000. There are reasons for that. I think a lot of the tech stocks now are much more real. They've got earnings. I think interest rates now are a lot lower than they were twenty odd years ago. But I think there's similarities and I think the bear market in tech stocks has got much more to play out. On the other hand what we saw in 2000 was the start of a decade of good returns for mining stocks. And I certainly see something similar happening now. Back in 2000 we had huge investment in infrastructure led by China, and that led to huge returns for many mining stocks. What we're seeing now is just huge supply constraints in mining, and I think that is going to be very very positive for the longer term outlook for the mining sector.

JAMES THOMSON: So Phil the sport in markets at the moment, and journalists are shockers for this, trying to find the bottom. Is it time to buy the dip? Is this capitulation? It seems from what you're saying that this is a proper bear market and that's going to take a little while to find that level.

PHILIP KING: I don't think a proper bear market ends after six months. I think you have to wear out the patience of everyone who's trying to pick the bottom. So I'm not trying to pick the bottom, I'm just trying to be patient. I think what we need to see is capitulation by companies.

There's a lot of technology companies that are losing money that need to raise money. And I think they don't want to raise at these share prices but the longer they wait probably the lower their share price goes. There's also I think capitulation by many investors. There's been many investors who have been investing in tech stocks and they're down on their investments. And a lot of people don't like to sell at a loss so I think those people don't sell until they're forced to sell. And then I think a lot of institutional investors have kind of allocated to growth managers and tech managers and they're allocating as little as six months ago and so I think it takes time for allocators and other investors to change their mind and admit they were wrong. And I think it's probably going to be at least a year or two I'm afraid.

PHILIP KING: Yeah. Well fair enough. Geoff, that's a bit of a ...

GEOFF WILSON AO: Gees. I mean pretty bearish. I'm always bearish. But good to have Phil on board.

PHILIP KING: Well Geoff tell to that point. I mean you've talked a lot over the last five years really about this feeling that the bull market was very late. We were a late cycle and we've felt like that for a long time. Has it changed?

GEOFF WILSON AO: Well to me, no it hasn't changed. The latter part of last year I ran into this doctor and he was telling me about his daughter who is at uni down at ANU. He's up in Queensland. And he just spoke to her the latter part of last year about coming back for Christmas and said hey look I'll send some money down for your plane ticket and she said no Dad you don't have to send it. And oh he worried like a good dad, where'd you get the money from. And she said oh well you know I sold my car six months earlier for ten grand I've been punting crypto.

JAMES THOMSON: Fantastic.

GEOFF WILSON AO: And he said well like how much have you made, ten thousand? She said no, more. Twenty? No. Fifty? No. Hundred. She said a little bit over a hundred. But she said also what I did when I made my profits I put it into blue chips. So what that, to me, we knew the excesses in the crypto, so it was sort of the latter part of last year I'm thinking oh hold it. And I

was taught, I remember in the early 80's when I started in the market, I remember a very wise stockbroker said to me you make your money in your second bull market. And I didn't know, what, what's he saying to me, I make my money on the second bull market. I was in my first. And I did realise after the end of the first bull market or whatever money I made in the full bull market I lost, because I was all in. And in theory I was a bit wiser and I made my money in the second bull market. So effectively that person that turned ten thousand dollars into more than a hundred thousand dollars in her early twenties like that's unnatural. And it shouldn't be done. So unfortunately they've got to lose that money. And I'm sort of, in terms of the rhyming part, I was more a combination of the tech bubble, and that was picking up on Phil's point, but also we've had that 20 year period where we've been in an interest rate bull market so valuations have been going up. And it was the old buy the dips, and now it's sort of I'm more sell the rallies. But now long does it go for? Are cycles are they all going to be quicker? If you'd asked me when COVID, oh well when COVID started great we've got to go through various phases of COVID and we'll get to normalisation, so the market will probably bottom at the end of the year. Like it bottomed a month later. So to me that's the hard part trying to work that out. And with inflation I remember, what really worries me about inflation, and picking up on Phil's point, I mean there's a lot of people in the audience that have seen this before in terms of the no hairs or the grey hairs, but there's a lot of people in the market that haven't seen this. And I remember Bernie Fraser coming in the latter part of the 90's when inflation was then high maybe it was running 6% or 7%, I was in the broking game, we had 12 fund managers, he just got all the fund managers to write down on a piece of paper before the lunch started what they thought inflation was and he spent the whole lunch explaining to them why they were wrong. Because it's the expectation of inflation, effectively everyone's happy to pay more, which creates it. And like that's the tough part isn't it.

JAMES THOMSON: So to you and Phil, to that point, what are some of the things that you think about when you're investing in an inflationary period? What are some of the rules or things to keep in mind?

PHILIP KING: Well I think you've got to focus on the companies that have got pricing power. So which companies are winners from inflation and which companies are losers. And I think in an inflationary environment obviously some companies can raise prices. At the moment I think one of our largest overweights is the mining sector. A lot of commodities there's supply

constraint and there's limited supply. And then you have a disruption like what we've seen in Europe and suddenly prices spike. And so in my mind at the moment the mining sector, energy sector are the clearest winners from inflation. But then there's other sectors that generally do well and that's where we're really focused.

GEOFF WILSON AO: I mean that's right and hard assets which get the inflation benefit.

JAMES THOMSON: Yeah. Jun Bei what are you thinking as you enter this? What are some of the things that you're focusing on in an inflationary period?

JUN BEI LIU: Yeah absolutely. So this period when it's inflationary it's important to stick with the market leader. So when we talk about pricing power, generally the large cap, the blue chip, they have ability to pass on the price the higher cost. Now there might be a lag, their costs go up first and then they put the price through, but it will come through regardless. But usually these are the periods where the weak player in any industry gets really awash with crunching margin and things. You'll start to see that playing out in the share market. You hear from some of the smaller player who talk to very weak earnings outlook and not only the revenues falling their margin will shrink and then they can't pass through the pricing. So you stick to large, stick to quality, market leaders. I think Phil talked to the commodities. Normally they're really great inflationary hedge. Just be mindful. I guess my view about the commodities that yeah they're doing great, they're generating a lot of cash, and they're paying a lot of dividends. It's just that a lot of those commodity prices are high as it is because of the short-term disruption right the supply couldn't come online because of lockdown in China, because of all these things. And there are supply coming online. They may come online later on. But look at the iron ore forecast, everyone's forecasting it halving in the next 12 months. It may take longer. But remember mining sector is a cyclical sector where you buy it for the good times and remember to take profit before it gets too close to the end. So that sector will benefit quite a bit but stay neutralish. And yeah so it's essential quality companies that you give that. Some of the financial businesses they do have very direct linkage. Literally one fifty basis point increase in interest rate the banks can make more money off it, whether it's banks or whether the likes of computer share, the likes of insurers because the insurance rates are rising. So there's a lot of businesses actually listed on our stock exchange or really big beneficiaries of the rising rates, if the demand hold up.

JAMES THOMSON: Yeah. Yeah. Which is a really good question. The mix of patience and the need to take advantage of volatility Phil. I mean this is a great time for stock pickers in that things that might have been too expensive for you a little while ago are now in your range. Obviously you've got to be careful of picking the right stocks but does volatility give investors opportunities that may be more difficult in that long bull market we're seeing?

PHILIP KING: Yeah look you're certainly very right. We're a long short investor. We can benefit from stock prices that go up and we can actually borrow shares and benefit from stock prices that go down as well. And whereas shorting got very hard in the aftermath of the COVID crisis when many stocks ripped, what we've actually found is that we've had some of our best returns on the short book in the last six to nine months. And so for some of our funds it's been a great time in the last six months because we're making money on the short book and we're making on the long book. So yeah long short investing, twice the ways to make money, but also twice the ways to lose money. So we say we generate returns from our stock picking not just from the market going up.

JAMES THOMSON: Yeah. Geoff obviously WAM is long only so you don't have that option.

GEOFF WILSON AO: Oh no we can short.

JAMES THOMSON: Okay. Alright.

GEOFF WILSON AO: But in theory the ability to be a good long investor and to be a good short investor, they are two different skill sets. And I'm sure Phil knows that all too well. And so we tend to focus on long. We can short, because the whole idea is to have maximum flexibility. Are we good at it? Leave that to Phil.

JAMES THOMSON: So talk to us a little bit about the sort of mindset at WAM at the moment. I know it'll be different for different funds but if you can generalise a bit. Are you looking for things that are going to work for the long term that might have been oversold and you can pick up on the cheap, or are you being a bit more flexible and adaptable to conditions and trying to get in and out of things where you can spot smaller opportunities?

GEOFF WILSON AO: Yeah like to me, it is a difficult period because we, in theory the market has changed, so that sort of the short term trading is this type of market with the volatility and particularly is it oversold, will it bounce back, or are we still going down, it's nearly like picking up coins on the train track. So, for us. So we're trying to buy undervalued growth companies. We try to buy them when we see a catalyst change the valuation. We're trying to be positioned so if it does play out as it appears it will in terms of the inflation, higher interest rates, that we're not in the sectors or not in the companies that will be facing headwinds. So that's pretty much how we're doing it. I say that then say WAM Capital (ASX: WAM) half our portfolio is trading, is picking up those coins on the train track, and the other half is the undervalued growth opportunities. So in all markets there's always trading opportunities.

JAMES THOMSON: A bit of both. Yeah. Jun Bei it's an interesting time I imagine for an investor thinking about the long held principles that you have and the sort of investing rules that you have. The market regime changes a bit. Do you have to be quite disciplined to sort of not let go of those principles and rules that have served you well for a long time?

JUN BEI LIU: Oh absolutely. That's a really good question because one thing about share market is that investors can get very emotional. They become the herd mentality, all these behavioural biases take place, especially when market become very volatile. People get scared, get greedy, and get all of that. Last couple of years was probably a little bit of greed in the market and now it's a bit of fear in the market. So investing principle always works. And it may not work tomorrow, but it will work over a period of time, investment period of time. Share price will always follow earnings and then you always find your quality companies. Again I agree with Phil that as a long short investor it's a great market because what you do is that you, a sector for example, whether it's the healthcare sector or whether it's the tech sector, it may be out of favour and these are the times where you can make a lot of return, a lot of return being the first investor. Now but how do you do that? For a long short investor we could do that, we could short the ones with lower quality, we buy the ones that are quality names that's halved in value. And for us these sort of businesses will return a huge amount of return taking a twelve month view. Without at the same time punting which way the market might go or which flavour the market might go. So, like you said previously, this is a market for active investors. You've got to wait and be patient, wait for, I always say wait for the share price to come to you, wait for your opportunity, and then just buy it and then without worrying about what's going to happen

tomorrow or the day after, don't call that. You already make a decision, say buy CSL (ASX: CSL), put it on the bottom drawer, in twelve months' time it'll be a whole lot higher than it is today.

JAMES THOMSON: Yeah. Phil what are you telling your portfolio managers? Are you sort of saying don't change your stripes just because the market's changed?

PHILIP KING: Yeah I'm just telling people just be aware of the big picture. I think you've got to be careful about, to use your expression, trying to pick the bottom. I think it's dangerous to try and catch a falling knife. I think it's very easy to lose a few fingers. So we're just trying to ...

GEOFF WILSON AO: Or a whole hand.

PHILIP KING: Or a whole hand. And so we're just trying to be patient at the moment. We'd probably prefer to wait to see things turn say in the tech sector, and buy on the way up, rather than buy something that's going down. So it's a good lesson on shorting as well. I think a lot of less experienced investors always want to short something that's gone up, but the danger is it keeps going up. Whereas I think it's much better to wait until something turns and short something that's going down. And so I think it's very important just to be aware of the big picture and just be aware of the cycles that the market goes through.

JAMES THOMSON: Yeah. So don't necessarily feel you've got to be first. Be right rather than first.

PHILIP KING: No. Yeah exactly.

JAMES THOMSON: Yeah. Geoff the interest rate picture is fascinating at the moment. There's a sort of philosophical debate I guess. Obviously rates are rising around the world and in Australia. What's your view, but at the same time we've got a lot of debt in Australian households, not so much in corporates but households are quite indebted. Is your sense that the indebtedness of households will eventually force the RBA and other central banks around the world to pause and limit the damage they do to the economy?

GEOFF WILSON AO: Yeah I mean unfortunately that's the million dollar question isn't it. And always a good question by you James. That's why you asked it.

JAMES THOMSON: That's why I need an answer.

GEOFF WILSON AO: Yeah. I don't know what the answer is. I mean that is, that's right, as I said before there's enough grey hair here. I remember rolling one of my mortgages at 15%, and I was pretty excited because I think a year later I would have had to roll it at 17%.

JAMES THOMSON: Right.

GEOFF WILSON AO: I think that was the early 80's. I did it then not the early 90's. So to me obviously a lot of people that have borrowed money, the indebtedness, and if you're talking interest rates anywhere near that. And you're looking at where inflation is and how much is it structural or how much is it cyclical and that's again the big question. The unfortunate thing is they tend to be, the Federal Reserve or the RBA they tend to be behind the curve.

JAMES THOMSON: Yeah.

GEOFF WILSON AO: And it already looks like, I mean one thing that we're really focused on closely is PMI. And it already looks like there could be some cracks. So economies are slowing and they're just putting their foot down.

PHILIP KING: Yeah. I think the challenge for Reserve Banks at the moment is we see inflation as more of a supply side problem and excess demand. And so even if the Reserve Bank raises rates, and reduces demand, it's not going to solve the supply side question. And we've had a huge lack of investment both in commodities but also across the broader economy. And so it's a huge challenge for Reserve Banks right around, central banks right round the world, is just how do we slow inflation. But certainly your point about excess debt, that's going to be a huge handbrake on the economy as interest rates go up.

JAMES THOMSON: We've seen this language in the last few days from the Federal Reserve that the pause might be on. A few weeks ago it was we'll just jack rates up until we get to where

we want to and now it's we'll jack rates up and then we'll stop and take it easy. What does the panel think about that? Is that perhaps what we're likely to see, a rise then a pause?

JUN BEI LIU: I think that, just following on from what Geoff was saying, the analogy is that it's almost like driving your car in the heavy rain, and this car is speeding down the road, and you can see something ahead and you're going to crash, and the central bankers trying to stop this. So, because if you don't stop it the inflation is so high it's going to crash eventually really badly, so they're trying to put the brake really hard, really really hard, and then hopefully it will stop at some point, because they just don't want to see the final bad crash but they're happy to have a little bit of a thing. That's what's happening. And then the car clearly is going to skid a little bit. And this is what they're trying to do. Now, I actually forgot what your question was, so. But that's what they're trying to do. So they're not really trying to have a hard landing, hard recession, they're just trying to put a brake a little bit. Yes there's a few things, the supply constraint and things, border and that will eventually ease of in the next six months. But it is the consumer that has so much stimulus. Government gave them so much money. They're spending it. In the US I think the money just started to run out so we started seeing all that consumer indicator turning, mortgage, all of these turning. So these things are slowing down. So they're watching it. So they still need to get the expectations of higher interest rate in the market because they don't want people to think, interests are going to fall, it's going to be really cheap, I can still go out spend all the money, buying all the goods I don't need. They need to slow that down. So I think that pressure will ease off. But we still need a couple of months of higher interest rate sort of hike and then we'll see some relief. I just don't think there will be blindly all of them will just go trying to drive us into that wall.

JAMES THOMSON: Alright. I'm going to put you on the spot now. Do we end up in a hard landing or recession yes or no?

JUN BEI LIU: Australia or US?

JAMES THOMSON: Both. Give me one for each.

JUN BEI LIU: So US I think it's a soft landing. It's not going to be a hard recession. I don't think we'll get there. Australia, it's still probably fifty-fifty. I don't think we're getting there yet.

JAMES THOMSON: Phil?

PHILIP KING: I think it's a soft landing, soft recession. I think it's something that central banks are bringing on, they're causing it, so if they engineer it I think they can get us out of it without a hard landing.

JAMES THOMSON: Geoff?

GEOFF WILSON AO: I'm more recession recession.

JAMES THOMSON: So negative. Such a bear.

GEOFF WILSON AO: Well hey I'm an investor. And then I get really excited. Like I started in 1980, '82 recession what a great opportunity that was.

PHILIP KING: You better get some shorts on Geoff.

GEOFF WILSON AO: But the interesting thing is. And I know, sorry we're making a bit of noise.

JAMES THOMSON: No please.

GEOFF WILSON AO: The interesting thing is Catriona Burns that works for us on the global side, and this is for the people that didn't hear this earlier and you can take it down, and actually it's a pity it's not a book by James Thomson but I'm sure it'll come. But the book is, Richer Wiser Happier, How the World's Great Investors Win in Markets and Life. Now I don't know how that works because great investors tend to be emotionally, have no emotion so I don't know how you work it, it helps in market but not in life. But in there they talk about when he wrote the book I think the latter part of the 2000 and teens or whatever it is, there was a twenty year period, and over that twenty year period the US market went up 7.2%. If you missed the twenty best days your return was 1.1%. So effectively that's the tough part. I might be bearish but if we all knew exactly what the market was going to do we wouldn't be sitting up here.

JUN BEI LIU: If someone said to us, well some people I spoke to were very old, and so [laugh]. And this is one of the old saying is that during the London bombing by the Germans share market went up in London. So equity market is a reflection of future expectations. Not the current environment, or the current economy. So sometimes you've got to go oh things are so bad and dire why share market up. Share market is always about what's going to happen in the next little while.

JAMES THOMSON: Yeah. Great point. You weren't around in the blitz were you Geoff? No?

[laughter]

GEOFF WILSON AO: Very good. You think is my helmet hey.

JAMES THOMSON: We're going to move on to some audience questions. But I'm just going to ask a few quick ones. Geoff you mentioned the PMIs.

GEOFF WILSON AO: Yes.

JAMES THOMSON: As a data point you're watching. Any other data points the panel would suggest keeping an eye on as we go forward. Phil have you got one?

PHILIP KING: Well probably one of the first things I look at is bond yields. I think the big lesson of COVID that despite one of the sharpest recessions we'd ever seen, despite a pandemic that was very unprecedented, the equity markets ripped. And that was I think driven by bond yields falling to 1%. So it's hard to understate how important bond yields are for valuations. And so I'm watching bond yields very closely.

JAMES THOMSON: Yeah. And that's a really good point. If bond yields remain low equities are still going to look pretty attractive aren't they?

PHILIP KING: I think equity markets are pricing in bond yields a lot higher than where they are now. So even though rising yields are a headwind, I still think equities can do okay.

JAMES THOMSON: Yeah.

JUN BEI LIU: One other one I would add too is actually credit spread I'll be watching. Credit spread is essentially a reflection of what people will pay for company debt, whether it's a risky company or less risky company. During hey days good days when there's lots of cheap money and things credit spread is very low so people are happy to lend it to risky companies at this very low rate compared to the high quality company. Now we're seeing in the US that's started coming out. And now it hasn't reached any alarming level yet but it's coming out quite quickly. Now normally what that mean is that when credit spread starts coming out it means it costs more like significantly higher amount of money for more risky companies and lower companies and that essentially means it will cause some sort of crisis and reduced investment by the corporates and cause confidence issues. So that is something I would watch. At the same time you start seeing a lot of those credit card borrowing jumping significantly in the US because the cheap money is running out. So yeah that's something to watch.

JAMES THOMSON: Great point. Any questions from the audience? I've got lots more so I'm happy to keep going but we should give you guys a go. A few down the front here. Microphone's whisking its way around. This is just a micro question. How are you readying Myer (ASX: MYR) these days?

GEOFF WILSON AO: Oh gees. [laugh]

JAMES THOMSON: How short are you Phil?

PHILIP KING: No we've got no position in Myer at the moment.

GEOFF WILSON AO: But you were long at one point weren't you?

PHILIP KING: We've been long, we've been short. Look it's tough for all department stores globally. I'm not sure, you know when I grew up we'd go to Grace Brothers as it was then called to buy everything, and now we go to the mall and get everything in single stores. And so I think it's become very tough for department stores globally.

GEOFF WILSON AO: And when we bought Myer initially I started buying it at 40 cents whenever it was a couple of years ago and it was really backing, the catalyst for us was the management change. And that was John King and then obviously he ran into COVID and the dynamics changed. And the last lot we sold a number of our shares to Solly. And retail is tough and it is tough. I actually think, I texted Solly election night, because I know he's a big supporter of unfortunately Josh, just saying good luck Sol and he came back with some interesting comment about what a great job they were doing. But yeah I actually think Solly he's a great operator and in terms of if somehow he could work with Myer I'm sure you'd get a lot better outcome for everyone.

PHILIP KING: And sorry if I can add something. The big positive about Myer at the moment is that I think something like and don't quote me on this 30% of the sales are online these days. And so it feels like the company's transforming itself into an online retailer which obviously is very very positive in this environment.

JAMES THOMSON: The gentleman over there. I'll come to you next sir.

QUESTION: Hi. Interesting to hear your view of the R word. All the experts seem to think that there will be a recession in United States. I've got two questions. Okay, while the market is so volatile, and I can see the volatility going to 22 to 23 to 24, I'm kind of in a bit of a, I'm not sure whether I'm in an investor or trader. So during this period should we trade rather than invest? That's the first question. The second question is that looking at the market US seems to be highly rated at the moment, should we spend a lot more focus on the Australian market rather than the US market? Thank you.

JAMES THOMSON: Well trading and investing, the question is about time horizons I guess. If you're thinking ten years in advance it probably doesn't matter too much.

PHILIP KING: Well some people say investments are trades that have gone wrong and you just end up holding them a bit longer.

[laughter]

JUN BEI LIU: I think trading or investing in this market is that as any investor you have an expected rate or return right expected return. You expect to make 40% 50% whatever amount from a trade. And because the market is so volatile you are seeing those returns being realised quite quickly. So you buy CSL in January, you probably made your 20% quite quickly. And if you made your return that accrues and then you see the next opportunity you can actually be realistic and take some profit and move onto the next thing. It's really just the market volatility. Like you said it's picking up. Actually it's more historical level because last ten years was really very low volatile environment. And with that kind of volatility and if you generate your return I don't see why you wouldn't take advantage of the fall in the others and generate that kind return for yourself.

GEOFF WILSON AO: I'm more if you're going to spend 24 hours a day which in theory or whatever your waking day is thinking about the market then trade. If you don't want it to be your profession then invest, buy the shares and let the market do your work for you.

JAMES THOMSON: That's a good point. And Phil.

PHILIP KING: I was just going to add I think you mentioned Australia versus overseas. I think we're on record as saying that whereas Australia over the last ten years has been one of the worst performers we think over the next ten years it's going to be one of the best performers and we're seeing many, as one example lithium stocks and stocks like that go up many times. I think there's some tremendous opportunities especially in the resource sector in Australia. And so that's where we're choosing to spend most of our time. And as I've said earlier we're quite bearish on some of the tech stocks in the US.

GEOFF WILSON AO: And particularly like you paralleled this to the tech bubble and we're sort of more on the tech bubble. And it was interesting back in 2000 the Australian market did a lot better than the US market over that period.

JUN BEI LIU: And our economic growth is a little bit lagging the US growth. So our inflation is not as high because we had all the lockdown and we're just coming out of it. So our companies are still going to grow double digit. And then not to mention the mining, the banks are going to

benefit from higher interest rate. We're certainly seeing a lot of interest in the Australian market, a lot of capital flow. We're already outperform and we're going to do better in the next twelve months.

JAMES THOMSON: Quick question down the front and then I'm going to ask our panellists for a stock tip to finish.

QUESTION: Probably this is to Phil and Geoff. Geoff mentioned AGL (ASX: AGL). And I was just wondering whether any of you own AGL shares within your LICs and if you're going to vote against the merger?

GEOFF WILSON AO: Well first of all I'll say, I'll guess neither of them do.

PHILIP KING: We don't own any AGL at the moment but we have owned it in the past.

JUN BEI LIU: We don't own it.

GEOFF WILSON AO: That's right, that'd be the logical guess.

JAMES THOMSON: And Geoff come on give us an answer.

GEOFF WILSON AO: As I said we're a small shareholder in AGL. You've heard why I think it's, yeah, okay. To me I just can't believe the amount of money that they've spent. I think six months ago or when they decided to do the merger they were going out the back door, and the environment's changed totally for them. The reason why their share price has gone up is because, not because Mike Cannon-Brookes turned up, it's because their profitability has increased significantly with the high petrol price and the margins. So yeah to me I'm just incredibly, if I was a shareholder I'd be incredibly disappointed they'd spent, they've already spent \$160 million, another \$100 million gets spent, and all the other diseconomies are splitting it apart. So just from a financial perspective I don't think it makes sense. So officially I said we're seriously considering voting against it. So that's the official line.

JAMES THOMSON: Fair enough. Jun Bei?

GEOFF WILSON AO: She doesn't own it.

JUN BEI LIU: I don't hold it. Yeah no not at all.

GEOFF WILSON AO: You're innocent.

[laughter]

JAMES THOMSON: Alright we're running up against time. Jun Bei, I know you've given a few stock tips, you might want to repeat one or if you've got another one that'd be great too?

JUN BEI LIU: Oh look I've got another one. But I can repeat one. But another one also in the healthcare space which I'm quite big on healthcare simply because I feel quality companies are being sold off. Another one is Cochlear (ASX: COH). Earnings has been hurt by the pandemic and they couldn't operate on their hearing instalments around the world. Now with the world reopening earnings are looking incredibly strong. Not only that this company's is going to grow double digit even without the recovery earnings. Regardless of whether there's a recession, whatever happens around the world, it's going to be a bottom drawer type of stock.

JAMES THOMSON: Phil?

PHILIP KING: Yeah one stock we really like at the moment is Incitec Pivot (ASX: IPL). They announced a demerger this week and even though some demergers cost a lot of money the research ...

GEOFF WILSON AO: Well yeah if they're good Boards then they'll do it.

PHILIP KING: Yeah. Hopefully they can do it for a lot less than AGL's spending.

GEOFF WILSON AO: [laugh]

PHILIP KING: The research by one of our brokers this week has suggested that demergers are very positive for both stocks in the long term. We agree with that. I think there's better capital

allocation. It means that management's a lot more focused. And in this environment we think private equity can be quite active and by splitting the company into two both parts of the company are quite bite size if I can use that expression for private equity. And I think the outlook for both divisions both the fertiliser division which is benefitting from a huge increase in fertiliser prices, plus the explosives division which is benefitting from rising commodity prices, the outlook for both parts of the business is very very positive. So we like Incitec Pivot at the moment.

JAMES THOMSON: Great. Thank you Phil. Geoff?

GEOFF WILSON AO: Okay I'll give you two stocks, only because when we invest we look for undervalued growth companies with a catalyst and then also we like buying a dollar for eighty cents. The catalyst is this company, it's going to have its first earnings upgrade in 15 years, or actually no sorry the first, not earnings upgrade.

JAMES THOMSON: Is that public information?

GEOFF WILSON AO: No actually it's not earnings upgrade. It's the first time it's going to beat expectations. So that's not public. That's not public.

PHILIP KING: No, I won't tell anyone.

GEOFF WILSON: Worley Parsons (ASX: WOR). Worley Parsons we're convinced it'll exceed market expectations with their result. It was at 16 times growing at 20% per annum. So in theory we think that's the re-rating, when it beats market expectations, which in theory isn't public. And the other one is buying a dollar for eight cents, it's AMP (ASX: AMP). Like you've got \$1.09 and you've got assets of \$1.35 and they're going to pay back 50 or 60 cents. So you're buying at 20% discount now and when they pay back half the money it's what at 30 plus discount so.

JAMES THOMSON: Well it might be the first time Worley Parsons has beat earnings forecast but it might be the first time in 15 years anyone's recommended AMP. So that's fantastic.

[laughter]

JAMES THOMSON: Ladies and gentlemen will you please thank our fantastic panel for their insights today. We're going to have a quick break and then we'll be back with the Future Generation AGM I believe. So stick around. Thank you.

[end]