

Investors' Corner

Citiplace, Perth
for ASA, 20th June 2024
Convenor: Mark Dixon

A photograph of a fire safety cabinet. In the foreground, a white fire hose is neatly coiled on a metal reel. In the background, a red fire extinguisher is visible. The cabinet is open, showing the equipment inside.

Citiplace - Emergency Procedure

- ▶ If smoke is detected, or fire alarm is raised, follow exit signs
- ▶ Upon evacuating the building, meet at ***designated area***
- ▶ Do not use lift in an emergency
- ▶ **Designated area**
 - ▶ Turn right from the Citiplace Centre and proceed over the bridge to the pond area past the Art Gallery, if safe to do so.
 - ▶ Regroup there for head count if safe to do so.
 - ▶ If emergency personnel instruct differently then follow their directions.

Agenda

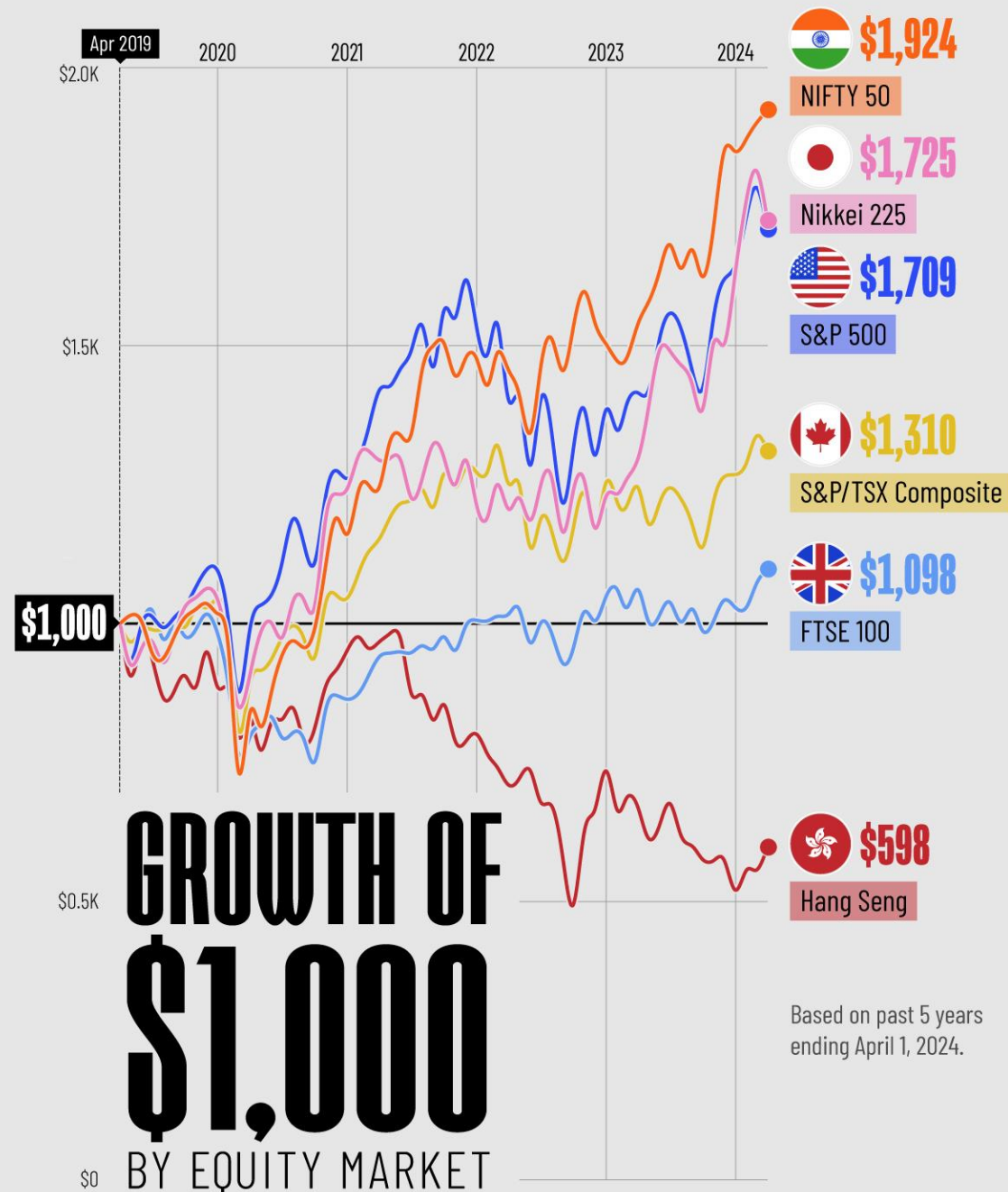
- ▶ Intro – welcome, emergency procedure, disclaimer
- ▶ Peter Scales – Macro-technical, with discussion
- ▶ Srinath Prakasan – The Indian Investment Environment
- ▶ Mark Dixon (if time) – SPIVA, a cautionary tale
- ▶ Other discussion material
- ▶ Next meeting – 18th July
- ▶ Close ~ noon.

Disclaimer

- ▶ The Australian Shareholders' Association (ASA) has provided the facilities for this meeting to provide general information about the ASA and to stimulate interest in financial markets.
- ▶ The ASA is not licensed to give financial advice.
- ▶ Presentations made here are not designed to provide any specific investment advice to any person present.
- ▶ The ASA does not accept any responsibility to inform you of any matter that subsequently comes to our notice that may affect any of the information discussed.
- ▶ Anyone wishing to act on any matter discussed should seek independent advice from a licensed financial adviser.



Peter Scales — Macro- technical, with discussion



How much would \$1,000 be worth on various stock markets after 5 years?

ASX/XJO ↑ \$1,209

- A lot better than **China**
- A bit better than **UK**
- Not quite as good as **Canada**
- **USA, Japan, India** - Wow!!!

From: Visual Capitalist





Investment in India -- Srinath Prakasan

Links to images used in Srinath's presentation

https://x.com/Brands_India/status/1788924450244887017 ↔ India Ratings and Research has increased its GDP growth forecast for FY25 to 7.1%. This upward revision is based on several positive factors that are contributing to a more optimistic economic outlook.

https://x.com/Brands_India/status/1789958577076986002 ↔ India is set to export 30% of its total smartphone output in FY2024, indicating a notable increase.

https://x.com/Brands_India/status/1790245658051608966 ↔ In 2023, India surpassed Japan to become the world's third-largest solar power producer, as highlighted by the global energy think tank, Ember Report.

https://x.com/Brands_India/status/1789883268076056772 ↔ In 2023, India surpassed Japan to become the world's third-largest solar power producer, as highlighted by the global energy think tank, Ember Report.

https://x.com/DoC_Gol/status/1790707359532085249 ↔ April 2024 begins with a 6.88% growth in total exports, reaching USD 64.56 billion compared to USD 60.40 billion in April 2023.

https://x.com/Brands_India/status/1792782373714821503 ↔ In April 2024, India's combined Merchandise and Services exports totaled US\$ 64.56 billion, reflecting a 6.88% rise compared to April 2023.

https://x.com/Brands_India/status/1793212706734199083 ↔ Industry stakeholders praise the government's emphasis on deep tech startups through the India AI Mission, viewing it as a favorable move towards fostering an investment-friendly climate.

https://x.com/Brands_India/status/1793144762578632831 ↔ Sovereign gold bonds have led to a US\$ 3.3 billion decrease in India's gold import expenses.

https://x.com/Brands_India/status/1795319088698327297 ↔ This ambitious project is set to start with an initial investment of US\$ 240.2 million (Rs. 2,000 crore).

https://x.com/Brands_India/status/1794382923548033469 ↔ This ambitious project is set to start with an initial investment of US\$ 240.2 million (Rs. 2,000 crore) and is scheduled to launch following the 2024 Lok Sabha elections.

https://x.com/Brands_India/status/1794737755643314195 ↔ India's digital economy is growing nearly three times faster than its overall GDP and is expected to constitute 20% of the country's GDP by 2027.

<https://www.ibef.org/industry/insurance-sector-india> ↔ The Indian Insurance market is expected to reach US\$ 200 billion by 2027 and the country is the ninth-largest life insurance market globally.

<https://www.ibef.org/industry/financial-services-india> ↔ India has emerged as one of the fastest-growing fintech markets in the world with a market size estimated at US\$ 150 billion by 2025.

<https://www.ibef.org/industry/electric-vehicle> ↔ Electric Vehicle

<https://www.ibef.org/industry/renewable-energy> ↔ India had a fully renewable energy capacity of 168.9 GW, including 67.82 GW of solar power and 43.20 of wind power (as of May 30, 2023).



SPIVA

S&P Index vs Active

Can it help us invest?

What is SPIVA?

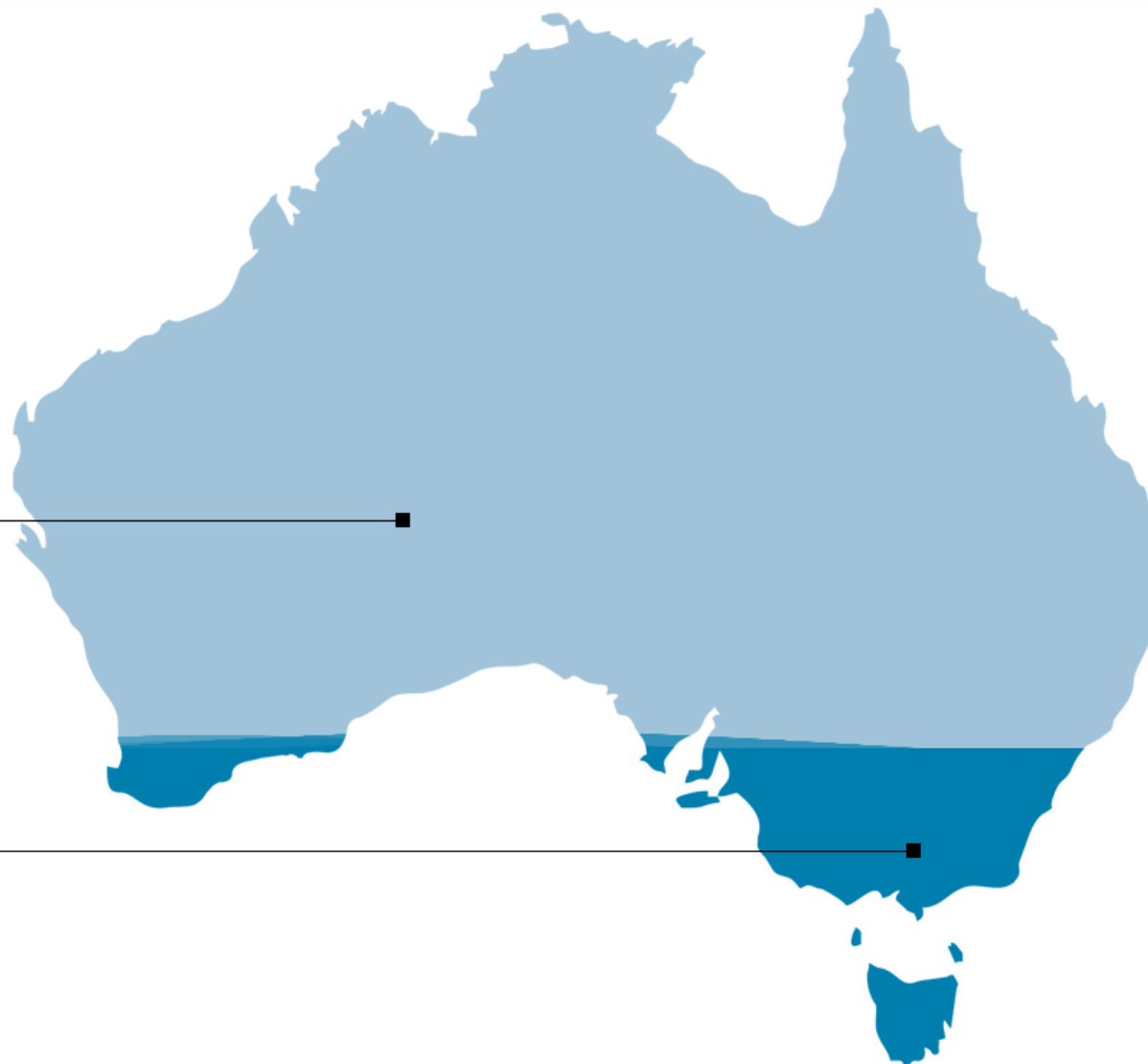
S&P Global

- ▶ Standard and Poors (S & P) the international financial and ratings analysis firm, does a report on how Managed Funds (Active) perform compared to their benchmark (Index).
- ▶ Report is done each six months, for U.S., Canada, Mexico, Brazil, Chile, Europe, MENA, S. Africa, India, Japan, & **Australia**.
- ▶ S&P has done this for over 20 years.
- ▶ What is striking about the report is that consistently, over most of that time, Managed Funds rarely outperform their relevant index: for broad indexes or narrow or for sectors (including REITs and Bonds).



Australia

Percentage of Australian Equity General funds that underperformed the S&P/ASX 200



76.49%

of funds underperformed the S&P/ASX 200

23.51%

of funds outperformed the S&P/ASX 200



1 YEAR

3 YEARS

5 YEARS

10 YEARS

15 YEARS

Australia

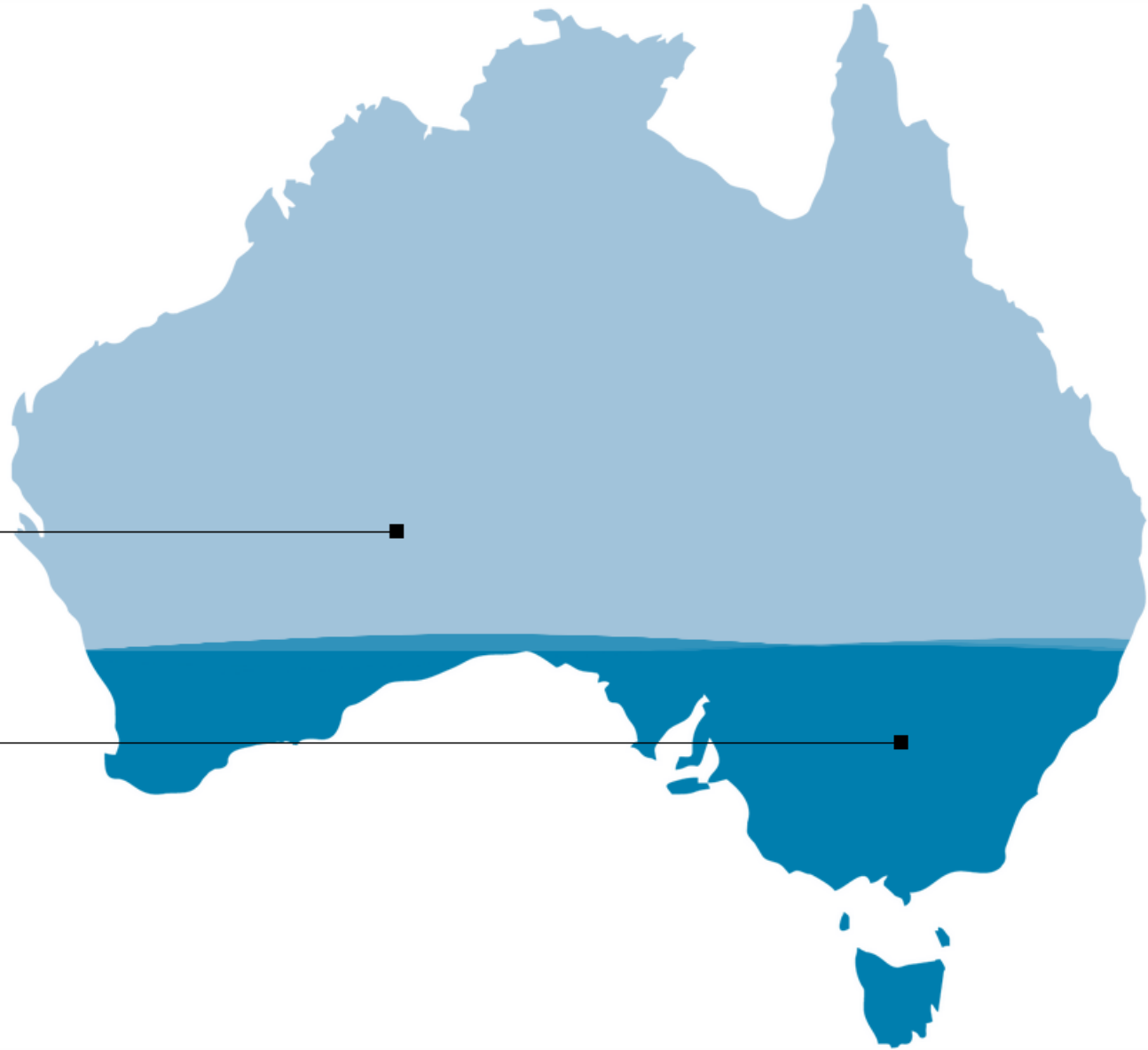
Percentage of Australian Equity General funds that underperformed the S&P/ASX 200

57.43%

of funds underperformed the S&P/ASX 200

42.57%

of funds outperformed the S&P/ASX 200



1 YEAR

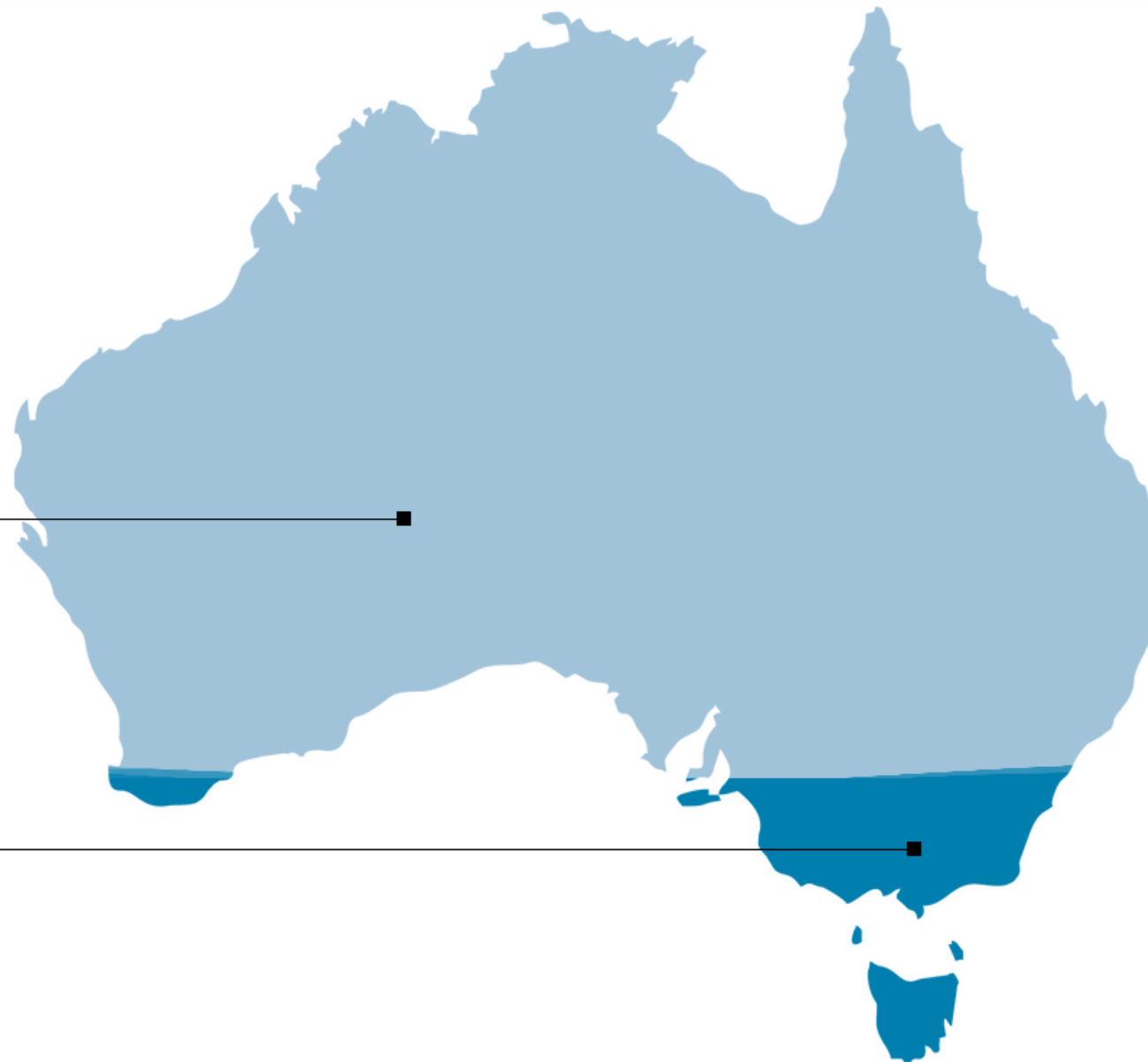
3 YEARS

5 YEARS

10 YEARS

15 YEARS

Percentage of Australian Equity General funds that underperformed the S&P/ASX 200



80.86% of funds underperformed the S&P/ASX 200

19.14% of funds outperformed the S&P/ASX 200

1 YEAR

3 YEARS

5 YEARS

10 YEARS

15 YEARS



Australia

Percentage of Australian Equity General funds that underperformed the S&P/ASX 200

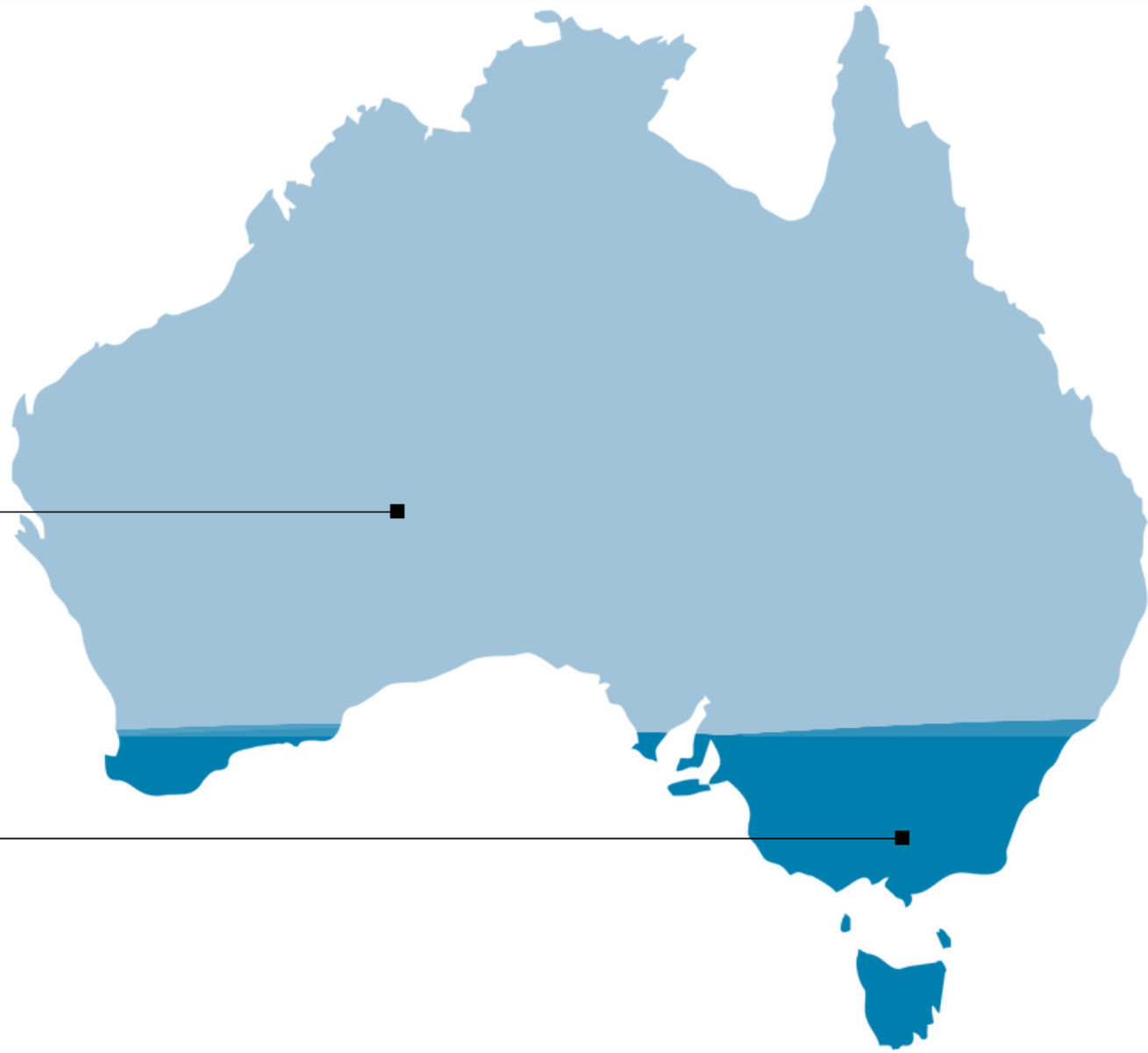
79.14%

of funds underperformed the S&P/ASX 200



20.86%

of funds outperformed the S&P/ASX 200



1 YEAR

3 YEARS

5 YEARS

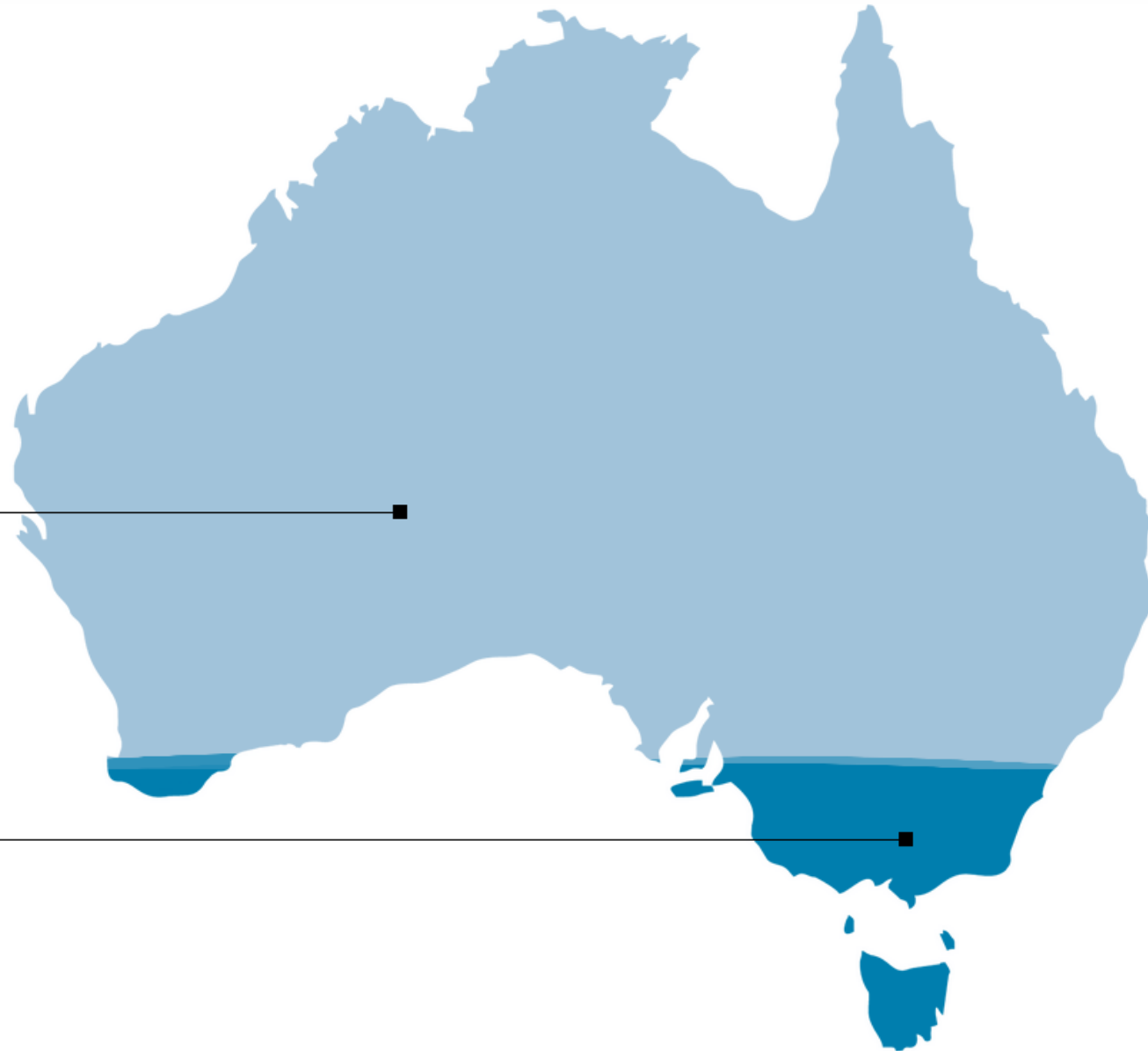
10 YEARS

15 YEARS



Australia

Percentage of Australian Equity General funds that underperformed the S&P/ASX 200



80.89%

of funds underperformed the
S&P/ASX 200



19.11%

of funds outperformed the
S&P/ASX 200



1 YEAR

3 YEARS

5 YEARS

10 YEARS

15 YEARS

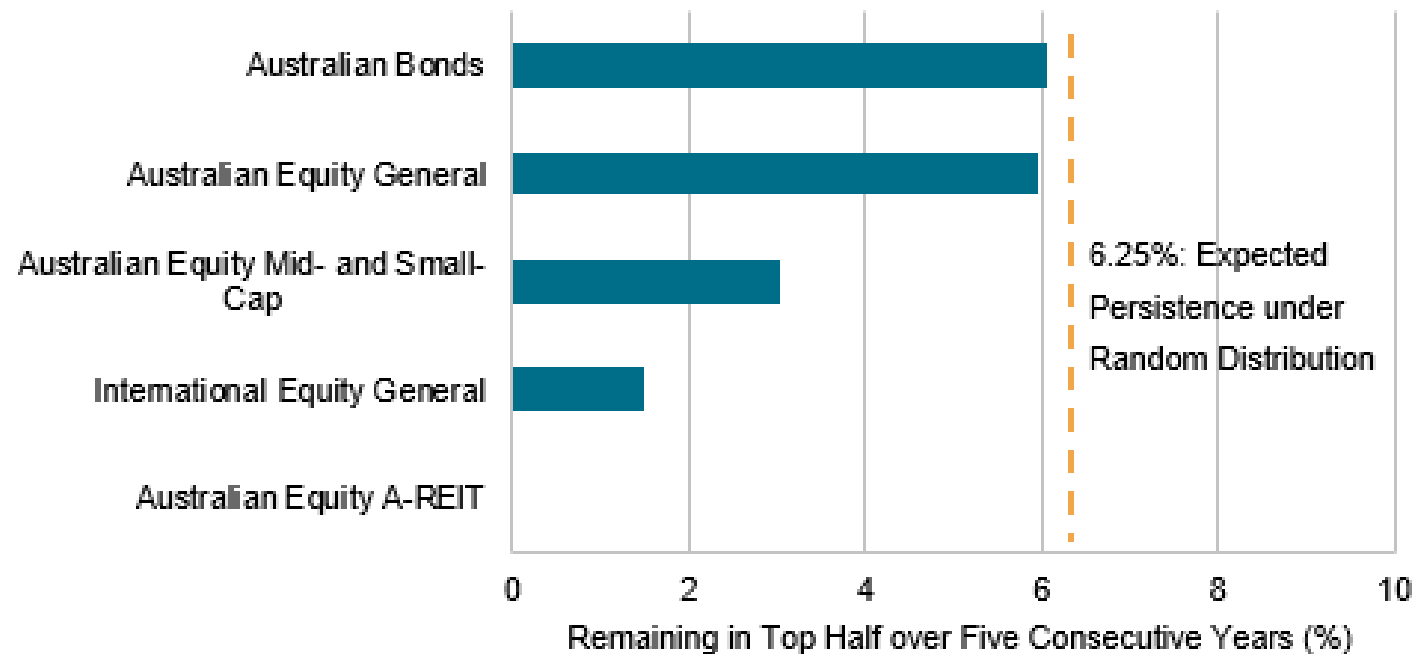
What about other benchmarks?

FUND CATEGORY	COMPARISON INDEX	% OF FUNDS THAT <u>UNDERPERFORMED</u> BENCHMARK				
		1 YR (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)	15 YRS (%)
Australian Equity General	S&P/ASX 200	76.49	57.43	80.86	79.14	80.89
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small Index	65.00	59.87	63.57	75.70	N/A
Australian Bond	S&P/ASX Australian Fixed Interest 0+ Index	31.34 ✓	47.89 ✓	62.12 ✗	N/A	N/A
Australian Equity A-REIT	S&P/ASX 200 A-REIT	84.31	70.77	65.67	77.46	81.91

Each type ***claims*** to beat its benchmark

It gets worse: “... the proportion of funds remaining in the top half over five consecutive years was smaller than would be expected if the performance were completely random.”

Exhibit 1: Percentage of Funds Remaining in Top Half over Five Consecutive Years



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.



How do I find out more?

- ▶ **The full report for year ended December 2023:**
<https://www.spglobal.com/spdji/en/documents/spiva/spiva-australia-mid-year-2023.pdf>

Fund manager critique ► SPIVA response

Survivorship Bias Correction: Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Scorecards account for the entire opportunity set— not just the survivors—thereby eliminating survivorship bias.

Apples-to-Apples Comparison: Fund returns are often compared with a popular benchmark regardless of their investment category. The SPIVA Australia Scorecard makes an appropriate comparison by measuring a fund's returns against the returns of a benchmark that reflects the fund's investment category.

Asset-Weighted Returns: Average returns for a fund group are often calculated using only equal weighting, which means the returns of an AUD 10 billion fund affect the average in the same manner as the returns of an AUD 10 million fund. An accurate representation of how market participants fared in a particular period can be ascertained by calculating weighted average returns where each fund's return is weighted by net assets. SPIVA Scorecards show both equal- and asset-weighted averages.

Data Cleaning: SPIVA Scorecards avoid double-counting multiple share classes in all count-based calculations by using only the share class with greater assets. Index, leveraged and inverse funds, along with other index-linked products, are excluded because this is meant to be a scorecard for active managers.

Other analyses

- ▶ Morningstar's Fund Market Reports - similar results.
- ▶ Russell Investments' annual analysis - similar results.

...

- ▶ "Passive Wins, Active Loses" (2019)
- ▶ "The Case for Index Fund Portfolios" (2013)
- ▶ "The Cost of Active Management" (2008)
- ▶ "The Arithmetic of Active Management" (1991)

...

Owen Analytics - a Scathing Review!

22 May 2024 “Active fund managers continue to destroy value and line their pockets with your money - Why?”

“Active managed funds in Australia destroyed \$4.5 billion of wealth from retail investors in 2023. Half of this was a straight transfer of wealth from the pockets of innocent investors to the pockets of fund managers. The other half was genuine wealth destruction through incompetence.”

<https://www.owenanalytics.com.au/2024-5-22-spiva-update> (Drawing from SPIVA)

How about Warren Buffet?

1. What does Warren Buffet advise investors to do?
2. How does Berkshire Hathaway perform?



Do yourself a favour and read pp 21-25 of the 2016 annual report for Berkshire Hathaway:

<https://www.berkshirehathaway.com/2016ar/2016ar.pdf>



Warren Buffet

On fund performance

Managed funds

In Berkshire's 2005 annual report, I argued that active investment management by professionals – in aggregate – would over a period of years **underperform the returns achieved by rank amateurs who simply sat still**. I explained that the massive fees levied by a variety of “helpers” would leave their clients – again in aggregate – worse off than if the amateurs simply invested in an unmanaged low-cost index fund. ...

Subsequently, I **publicly offered to wager \$500,000 that no investment pro could select a set of at least five hedge funds – wildly-popular and high-fee investing vehicles – that would over an extended period match the performance of an unmanaged S&P-500 index fund charging only token fees**. I suggested a ten-year bet and named a low-cost Vanguard S&P fund as my contender. I then sat back and waited expectantly for a parade of fund managers – who could include their own fund as one of the five – to come forth and defend their occupation. After all, these managers urged others to bet billions on their abilities. Why should they fear putting a little of their own money on the line?

Only one person took him up and here are the results:

Year	Fund of Funds A	Fund of Funds B	Fund of Funds C	Fund of Funds D	Fund of Funds E	S&P Index Fund
2008	-16.5%	-22.3%	-21.3%	-29.3%	-30.1%	-37.0%
2009	11.3%	14.5%	21.4%	16.5%	16.8%	26.6%
2010	5.9%	6.8%	13.3%	4.9%	11.9%	15.1%
2011	-6.3%	-1.3%	5.9%	-6.3%	-2.8%	2.1%
2012	3.4%	9.6%	5.7%	6.2%	9.1%	16.0%
2013	10.5%	15.2%	8.8%	14.2%	14.4%	32.3%
2014	4.7%	4.0%	18.9%	0.7%	-2.1%	13.6%
2015	1.6%	2.5%	5.4%	1.4%	-5.0%	1.4%
2016	-2.9%	1.7%	-1.4%	2.5%	4.4%	11.9%
Gain to Date	8.7%	28.3%	62.8%	2.9%	7.5%	85.4%

<https://www.berkshirehathaway.com/2016ar/2016ar.pdf>

On fund performance (continued)

...

There are, of course, some skilled individuals who are highly likely to out-perform the S&P over long stretches. In my lifetime, though, I've identified – early on – only ten or so professionals that I expected would accomplish this feat.

Is this you?



...

There are three connected realities that cause investing success to breed failure.

- First, a good record quickly attracts a torrent of money.
- Second, huge sums invariably act as an anchor on investment performance: What is easy with millions, struggles with billions (sob!).
- Third, most managers will nevertheless seek new money because of their personal equation – namely, the more funds they have under management, the more their fees.

These three points are hardly new ground for me: In January 1966, when I was managing \$44 million, I wrote my limited partners: “I feel substantially greater size is more likely to harm future results than to help them. This might not be true for my own personal results, but it is likely to be true for your results.

...

The bottom line: When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds.

<https://www.berkshirehathaway.com/2016ar/2016ar.pdf>

How about Buffet's own fund?

<https://www.barrons.com/articles/berkshire-hathaway-stock-warren-buffett-underperform-f9539619>

STOCK ALERT

Berkshire Hathaway Stock Is Behind the Market in 2023 and Over the Past 10 Years

Shares of Warren Buffett's conglomerate are roughly even with the S&P 500 over the past 20 years.



By [Andrew Bary](#)

Dec. 22, 2023 5:32 pm ET

[Berkshire Hathaway](#) stock is having a disappointing finish to 2023, putting Warren Buffett's conglomerate behind the [S&P 500](#) over the past 10 years.

The Class A shares have lagged behind the S&P 500 by about nine percentage points during the current quarter and now are up about 16% in 2023. That compares with a roughly 26% total return for the index.

The shares are up an annualized 12% in the last 10 years, slightly behind the 12.2% yearly total return, including dividends, for the index. Berkshire also is behind the S&P 500 over the past five years with a 13.4% annualized return, compared with 16.4% for the index., according to Bloomberg calculations.

Other disadvantages of active funds (1)

- ▶ Most managed funds and some EFTs are “active” meaning that they buy and sell more frequently than the quarterly rebalance of the index.
 - ▶ The ASX 20, 50, 100, 200, 300 only rebalance quarterly, and only on the smallest capitalised companies, i.e. not a lot of \$value in sell & buy to re-balance.
 - ▶ mid-cap index funds re-balance on the top and bottom, so they don’t have the above advantage.
 - ▶ Sector funds often need to do more sell & buy to re-balance.
- ▶ A lot of sell and buy causes capital gains tax events, and can lose the CGT discount if holdings don’t last 12 months.
- ▶ **ETF’s are different** - you get the whole 50% CGT discount if you hold the fund over 12 months.

Other disadvantages of active funds (2)

Streaming:

- ▶ If a lot of investors withdraw from a managed fund in the same year, this mechanism creates a capital gains tax burden which can become significant for the remaining investors.
- ▶ **ETFs are different:** the withdrawal mechanism is totally different. An investor who wants to withdraw from an ETF simply sells their units on ASX where they are purchased by other investors or an 'Authorised Participant'.
 - ▶ Only Authorised Participants may withdraw (redeem) from the ETF. If they do, the capital gain implications created by the withdrawal can be passed to the Authorised Participant rather than being left behind for remaining investors.

<https://www.vaneck.com.au/tax-advantages-of-etfs/>



In conclusion – some questions

- ▶ If managed funds usually don't perform better than their index, how can I?
- ▶ If Berkshire Hathaway (Warren Buffet) no longer beats the S&P500, how can I outperform the ASX200?
- ▶ Maybe it's because when they get big they can't be nimble and adjust their portfolios without shifting the market itself? (Warren B. did say this)
- ▶ Maybe the fees are so high they consume all the benefit of expertise & then some.
- ▶ To me these are open questions and deserve some robust debate in our discussion groups.

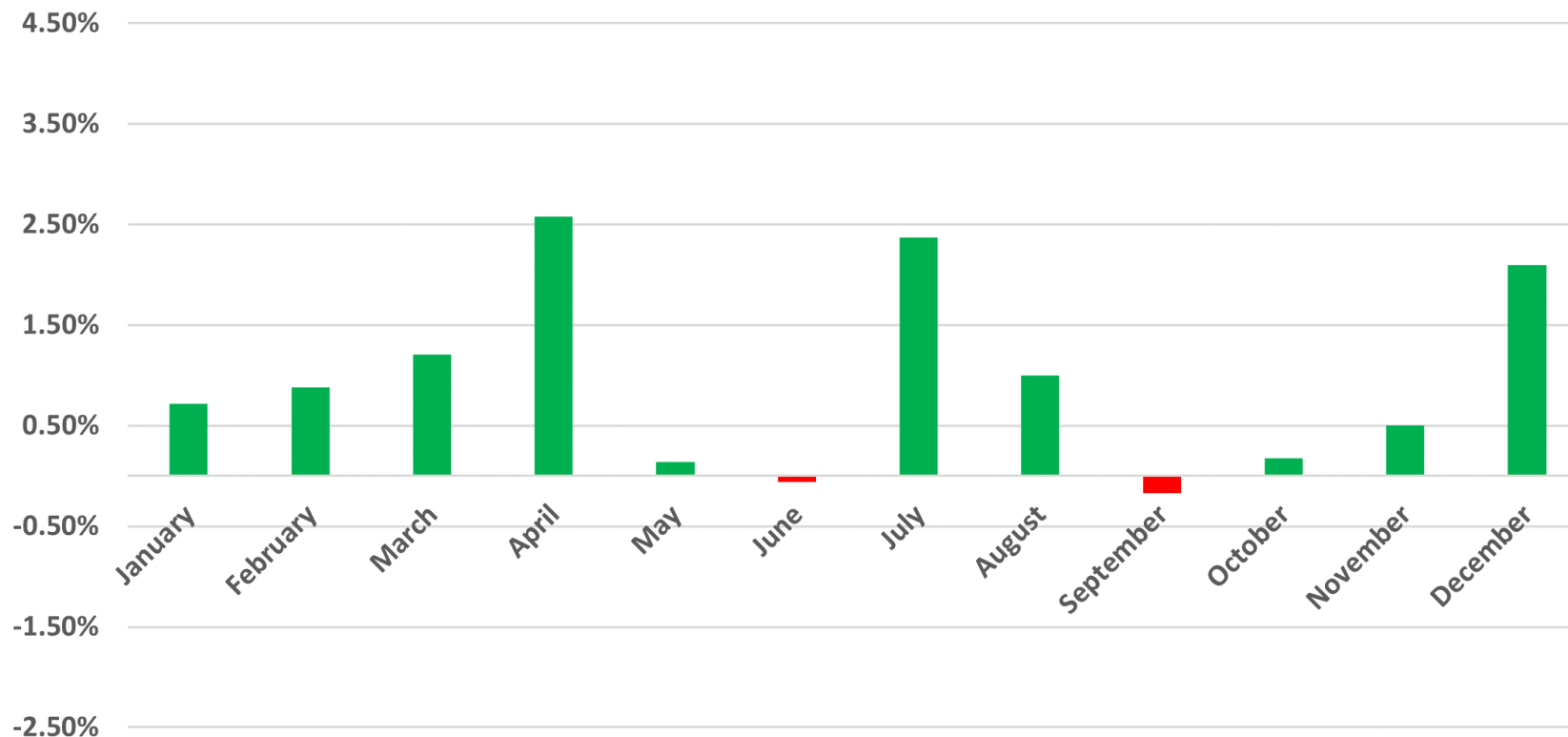
Additional Material for the group



Seasonal Investing

Is now a good time to buy? Or Sell?

Average Monthly Return % 40yrs



10 years XAOA
seasonal data

20, 30, & 40 year
averages are
similar.

All My Warrant Trades (including losses)

Ticker	Units	Buy Date	Buy price	Buy Brokerage	Buy cost	Sell Price	Sell Date	Days Held	Sell Brokerage	Sell Income	Profit	Profit%	Annualised	Underlying
XJOKOO	48	3-Nov-23	\$20.64	\$4.99	\$995.71	\$23.34	13-Dec-23	40	\$10.00	\$1,110.32	\$114.61	11.5%	105.0%	ASX200
NDXKOO	180	15-Dec-23	\$53.03	\$19.95	\$9,565.35	\$66.14	24-Jan-24	40	\$29.95	\$11,875.25	\$2,309.90	24.1%	220.4%	NASDAQ
XJOKOB	294	1-Feb-24	\$6.17	\$10.00	\$1,823.98	\$6.60	2-Feb-24	1	\$10.00	\$1,930.40	\$106.42	5.8%	2,129.6%	ASX200
SPFMCF	317	21-Feb-24	\$15.80	\$19.95	\$5,028.55	\$14.20	28-Feb-24	7	\$19.95	\$5,234.05	\$205.50	4.1%	213.1%	S&P500
XJOQOF	370	21-Feb-24	\$13.59	\$19.95	\$5,048.25	\$1.98	4-Mar-24	12	\$19.95	\$6,118.05	\$1,069.80	21.2%	644.6%	ASX200
WOWKOA	710	22-Feb-24	\$7.00	\$19.95	\$4,989.95	\$6.12	20-Mar-24	27	\$19.95	\$4,325.25	-\$664.70	-13.3%	-180.1%	WOW
BOEKOC	3100	1-Mar-24	\$1.68	\$19.95	\$5,218.91	\$18.06	10-May-24	70	\$19.95	\$5,705.07	\$486.16	9.3%	48.6%	BOE
XJOKOH	1017	11-Mar-24	\$11.30	\$29.95	\$11,522.05	\$11.53	16-May-24	66	\$29.95	\$11,696.06	\$174.01	1.5%	8.4%	ASX200-PUT
											\$3,801.70			

Warning: trading Warrants is high risk.

Close

- ▶ **Our next meeting:** Thursday, 18th July 2024, 10 am, Citiplace.

Other ASA groups:

- ▶ **27th June, 10 am — Nedlands Discussion, Drabble House**
- ▶ **28th June, 10 am — Perth South of the River, Bull Creek**
- ▶ **2nd July, 10:15am — Perth Member's Meeting & Investors Forum, SLWA**
- ▶ **16th July, 10 am — Stirling Discussion, Tuart Hill**
- ▶ **17th July, 10 am — Busselton Discussion**

<https://www.australianshareholders.com.au/learn-connect/local-meeting-groups/>