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INSIDE THIS ISSUE

- The New Golden Age
- Delivering On The Promise
- An Alternative approach to measuring national well-being
- Survive the new world disorder

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The New Golden Age

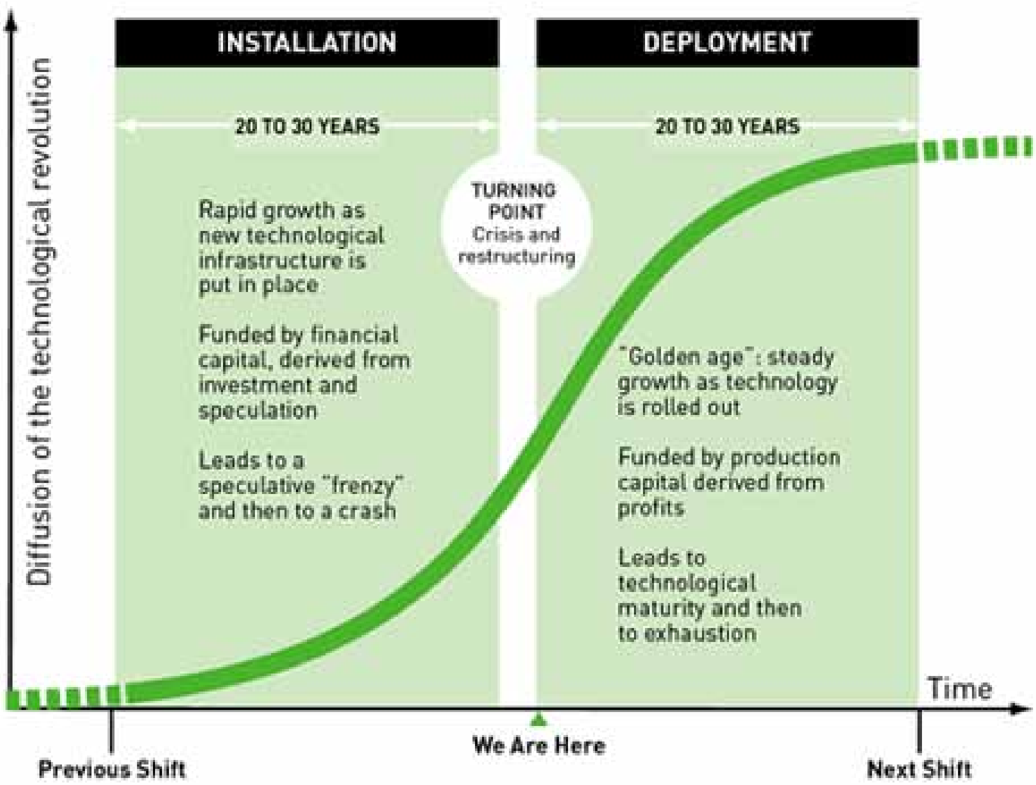
Recession. Depression. War. Terrorism. Unemployment. Enemies on the march. Every day the headlines remind us that there is plenty to worry about and more than enough real suffering to try our souls.

And yet, if we step back and take a longer view, we see that industrial society has been here before. The global economy is poised to enter a new phase of robust, dependable growth. Technological and economic historian Carlota Perez calls it a "golden age." Such ages occur roughly every 60 years, and they last for a decade or more, part of a long cycle of technological change and financial activity.

This doesn't mean that the world's political and economic problems will go away. But whereas the details of long cycles vary, the overall pattern of progress remains the same: An economy spends 30 years in what Perez calls "installation," using financial capital (largely from investors) to put in place new technologies. Ultimately, overinvestment and excessive speculation lead to a financial crisis, after which installation gives way to "deployment": a time of gradually increasing prosperity and income from improved goods and services.

This time, linchpins of the golden age will include the worldwide build-out of a new services-oriented infrastructure based on digital technology and a general shift to cleaner energy and environmentally safer technologies. In the emerging markets of China, India, Brazil, Russia, and dozens of smaller developing nations, a billion people will enter the expanding global middle class.

The idea of sustained prosperity may seem implausible in early 2010's. But no one would have believed, during the dark days at the end of World War II, that the global economy was heading for two decades of broad-based economic growth and relative peace, led by a new establishment of business and political leaders.



Source: Adapted from Carlota Perez, *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages* (Edward Elgar Publications, 2003)

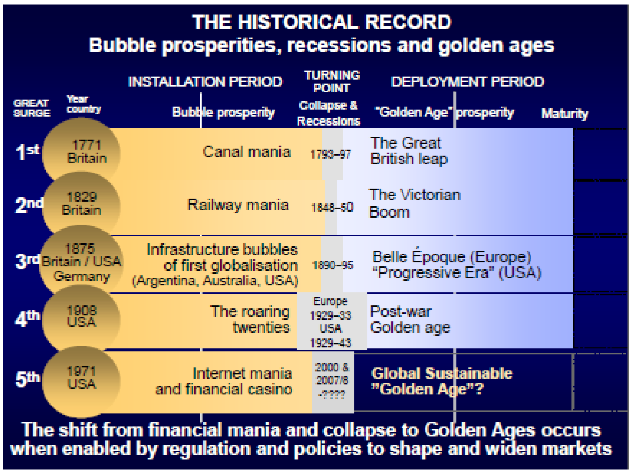
Tracking the Cycle

The New Golden Age (cont'd)

Long cycles of technology and investment have been tracked and analysed by an impressive roster of scholars, including Perez, Joseph Schumpeter, and others. (See "Carlota Perez: The Thought Leader Interview," by Art Kleiner, s+b, Winter 2005.) Five such cycles have occurred since the late 1700s. The first, lasting from the 1770s through the 1820s, was based on water power and introduced factories and canals, primarily in Britain. The second, the age of steam, coal, iron, and railways, lasted from the 1820s to the 1870s. The third, involving steel and heavy engineering (the giant electrical and transportation technologies of the Gilded Age), expanded to include Germany and the United States. This cycle ended around 1910, giving way to the mass production era of the 20th century, a fourth long cycle encompassing the rise of the automobile, petroleum-based materials, the assembly line, and the motion picture and television.

Our current long cycle, which began around 1970, is based on silicon: the integrated circuit, the digital computer, global telecommunications, and the Internet. It may feel like this technology has run its course, but the cycle is really only half over. In a typical "technological–economic paradigm," as Perez calls it, new technologies are rolled out during the first 30 years of installation with funding from financial capital. Investors are drawn in because they receive speculative gains that come, in effect, from other people making similar investments. Gradually this leads to "frenzy:" Investors can't be certain which inventions will succeed and which new enterprises will endure, so they bet wildly. As some bets lead to rapid gains, enthusiasm and impatience fuel a more widespread appetite for jumping on board, risks be damned. The consequence is irrational exuberance, a crash—and then a period of crisis.

The current crisis began in 2000 with the Internet bubble collapse. It was prolonged by the financial-services industry. Not wanting to give up easy profits, and applying the technological innovations that computer "geeks" had provided, traders continued to push for rapid returns. Elaborate derivative instruments were concocted; increasingly complicated computer models replaced experienced judgment; and highly leveraged bets piled into such "sure thing" arenas as real estate. This culminated in the catastrophic meltdown of 2008 and a historic moment of shifting establishment priorities….



We encourage you to refer to the links provided below if you wish to read in more detail.

However to summarise the conclusions…

The point, of course, is that the crisis is a turning point when the challenge is to establish a new global regulatory framework that can channel the new innovations into economically and environmentally sustainable economic growth. We need a new global financial architecture.

Such a package could involve large-scale redistribution to developing countries, allowing them to build the critical infrastructures of the information era, and to increase the consumption of poor people by providing jobs so that consumption is financed by productive income rather than debt. But it would also need to involve energy saving innovation, recycling especially waste, and the development of renewables, especially solar power, so that increased economic growth does not come up against the limits that could result from the high price of carbons and environmental degradation including global warming. It must be possible to spread the benefits of development without killing the planet.

A global effort to eradicate poverty and tackle climate change world-wide would be the best way to overcome the limits to productive and environmentally sustainable growth and spread the new techno-economic paradigm.

By Mark Stahlman

http://www.policyinnovations.org/ideas/commentary/data/000175

Related articles.

http://www.opendemocracy.net/article/crisis-as-prelude-to-a-new-golden-age (October 2008)

http://www.strategy-business.com/article/05410

(free registration required)

http://www.slideshare.net/fredwilson/carlota-perez-talk-at

(presentation in July 2011)

Delivering on the Promise

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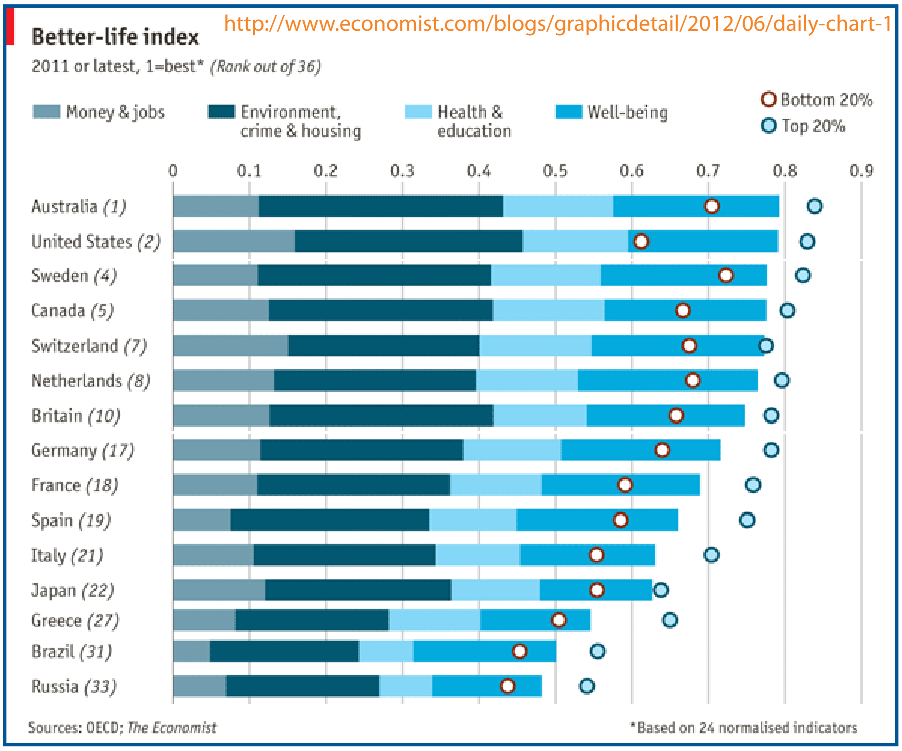
- Effectively collaborate with your other advisors, including accountants, lawyers, mortgage brokers and insurance agents to ensure we are all on the same page when it comes to making recommendations that affect your financial situation.

An alternative approach to measuring national well-being

GROSS DOMESTIC PRODUCT, better known by its initials, GDP, has been economists' chosen measure of a nation's well-being for over 70 years. But it has limitations; it takes no account of environmental degradation and excludes unpaid services such as volunteering and housework, for example. In the words of Bobby Kennedy speaking in 1968, "it measures everything...except that which makes life worthwhile." In an attempt to address these shortcomings the OECD, a mainly rich-country think-tank, has created the "Better-Life" index. Now in its second year, the index uses 24 variables (which include both hard data and survey data) across 11 sectors to create a measure of welfare for 34 of its member countries, plus Brazil and Russia. The Economist has grouped these 11 sectors into four broader categories. America excels most in money and jobs, Switzerland in health and education. This year the OECD has adjusted the index for equality to give an estimate for the top and bottom 20% of each country's population. America scores particularly poorly on this account, with the bottom 20% having an index score some 25% below that of the top 20%. Notice the gap between the top 20% (blue spot) and the bottom 20% (white spot)... Australia appears at the top of the chart.



The Heart of the Matter:

By John Hussman June 11, 2012

Lost in this debate is any recognition of the problem that lies at the heart of the matter: a warped financial system, both in the U.S. and globally, that directs scarce capital to speculative and unproductive uses, and refuses to restructure debt once that debt has gone bad.

How do we change course? To restore the economy to the path of long-term growth, we need to allocate capital better. This requires the willingness to allow bad investments to work out badly, without being bailed out or otherwise rescued. It would also help to detach the global economy from the burden of bad loans that can't be serviced. The first order of business is to restructure debt burdens. This requires lenders and bondholders to take partial losses (rather than transferring those losses to the public through bailouts) and requires debt repayments to be restructured - ideally swapping part of the principal for some form of equity claim. A return to growth will require regulatory structures that protect depositors but fully remove government protection from investment banking and trading activities. A return to growth will require monetary policy that stops distorting financial markets by simultaneously suppressing the incentive to save and encouraging speculative investment.

http://www.hussmanfunds.com/wmc/wmc120611.htm

Survive the new world disorder

After a long, sunny period, a splash of cold water - courtesy of the GFC - has left many investors bewildered and gasping. The first response was flee to safety. Deposit accounts around the country bulge.

But it's unlikely that bank deposits will provide you with the wealth creation you need to reach your financial goals, especially if inflation gets on the march.

1. Get real on returns: The first thing you need to do is accept that the days of easy money and double-digit returns are over.

2. You need to be targeting absolute - rather than relative - returns

3. Understand volatility: First, it can lead investors to bail out of assets at the wrong time. Second, a volatile asset compounds in value at a lower rate than another asset with similar returns but lower price variation.

4. Forget 'set and forget' and

5. Think global

6. **And give James at More 4 Life a call**

http://www.smh.com.au/money/survive-the-new-world-disorder-20120317-1vbyx.html