REMEMBER THE NINETIES?

FAMILIAR RING TO THE COMING GOLDEN AGE

As we roll into the 21st century, technology will empower individuals to take control of their destiny to a greater extent than ever before. We will move from being obsessed with rights to accepting greater personal responsibility for our own affairs, including personal investment, especially for retirement.

We will become more powerful as individuals, less dependent on our employer and governments and more involved in our community simultaneously. Ironically, this can be viewed as society moving back to the future. Politics will reflect this.

Trends we are seeing even today will lead to a more balanced approach to life by our children and their children. Instead of being focused on climbing the corporate ladder to the detriment of family and community until retirement, the different phases of our lives will become intertwined.

Previously we went to school and university to learn, then we went to work to earn and acquire wealth and finally in retirement we put time back into community activities. In tomorrow’s world we will continue to learn as we work and undertake community activities throughout our adult life.

As the workforce becomes more adaptable and mobile there will be some significant investment implications which will reinforce the impact of globalisation.

The inflation cycle is likely to be more muted than over the past 25 years. This should prolong each cycle. We will need to be investors as well as savers. Notwithstanding the voracious appetite for capital, real interest rates are likely to fall as the inflation risk premium declines. The diminished role of government and hence a reduced supply of bonds will reinforce this trend – as also will the likely lift in savings as individuals accept increased responsibility for providing for their retirement and as that insidious tax on savings, inflation, falls.

Property will be less attractive due in part to lower inflation, in part to slower population growth and an aging population, reinforced by a trend to renting residential property, given the need for the workforce to be mobile.

There is likely to be a shift to equity investment, especially towards smaller companies, perhaps even one’s own business. Investing globally will increase. However, some things will not change: the need to diversify will increase; the need to monitor the portfolio and make periodic changes in response to structural and lifestyle changes; the need to think global, plan regional and act local.

Structural change, particularly that triggered by new technologies and altered trading patterns, will test investors’ ability to spot the emerging investment themes before they are widely recognised. Stock selection will be at a premium, as also will be patience. However, low inflation, long economic cycles and reduced government interference should lead to longer time horizons being adopted when setting investment strategies.

The more things change the more they stay the same. Just as the 1890s heralded the greatest advance in human economic progress, the present transition to the information era is a prelude to a new golden age.

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Take yourselves back in time 100 years. It is 1896 and you are a resident of the world’s wealthiest nation, Australia. Perhaps you even live in that sophisticated, cosmopolitan, elegant international trading centre with its world-renowned buildings the jewel of the southern hemisphere, Melbourne.

Your wealth, like that of the city and country in which you live, is based on natural resources, particularly the rich gold discoveries of the latter part of the decade. Fortunately, unlike many of your class of the period, you did not entrust all of your family’s wealth to property investments. For the land boom is over and the resultant property crash has precipitated bank collapses and a dreadful recession which has been prolonged and exacerbated by the worst recorded drought in Australia’s history. Indeed, such is the global nature of the downturn that it is called the Depression Decade.

But as the new century approaches optimism is returning. There is a belief in perpetual expansion and a universal renewed confidence in mankind’s capabilities. Your personal challenge is to establish the appropriate investment strategy for the new era. You are both global and reflective in your approach. So you begin your task by reviewing the big issues of the nineties.

These are:
- the ever-increasing speed of technological developments, such as transport (automobiles) and communications (the wireless);
- the never-ending infrastructure developments demanded by the industrial revolution, urbanisation and colonisation, such as roads and ports;
- growing awareness of and focus on social issues, such as human rights;
- the constant pressure on business, and even nations, to survive the competitive threat posed by new technologies and newly emerging countries, such as the US.

While you, like others, are amazed and enthralled by the new inventions of the decade, little do you realise how they will impact on the coming century, how these discoveries will revolutionise communication, transportation and entertainment.

The century of the Industrial Revolution is coming to a close and amid the burgeoning mechanical advancements come concerns about the level of savings and capital. The industrial revolution, which created much growth and wealth, also spawned numerous social pressures concerning feminism, welfare, indigenous people and ideology.

The old feudal system where the master was responsible for the welfare of his servants had been destroyed. While this liberated individuals it also created economic impoverishment and social divisions which, in turn, gave birth to the socialist political movement concerned with redressing these inequalities.

The challenge to remain competitive as the new century dawned was ever-present. There was a growing output from the emerging countries of the new world: the Americas and Australia. The potential and hence the threat of new technology was still underestimated. However, concern about trade, both protection and anti-trust legislation, was fashionable.

Now, if you were an institutional investor sitting in your office in London in 1896, the investment outlook would be clouded by the Depression affecting particularly Europe. There, the industrial revolution is maturing, the recovery itself is patchy, and growth is slow and uncertain. From your perspective, it seems, the best investment opportunities are overseas. But as always, the risk is significant.

Looking back with the perspective of an economic historian, the 1890s are seen as a period of profound transition in the global economy, particularly with the emergence of the US as the driving force.

Driven by heavy investment in infrastructure - bridges, roads, canals and, above all, railroads - the American frontier had begun to open up. The US had become the source of tremendously cheap goods and agricultural products.

The effect on Europe was devastating. Faced with better goods, made or grown cheaper, traditional labour forces in European countries were quickly displaced and began to feed the wave of emigration back into the US, thereby reinforcing that country’s competitive advantage. This was the height of the age of industrialism.

So what parallels can we draw from the investment environment and economic developments of a century ago?

We are emerging from a severe recession, the most severe since the Great Depression of the 1930s. This is especially true of Japan, the world’s major source of capital. The global recovery is patchy, yet there do appear to be excellent opportunities offshore, if risky.

Heard this before? This is not the first time parallels have been drawn between the 1990s and the 1890s. However, this parallel has particular relevance for investors today.

Instead of the US representing the source of cheap production and a threat to the old established order of the first world, the source is now Asia. Asian growth and its capacity to compete have been driven by investment in factories, technology, infrastructure, and powered by (generally) cheap labour and a highly skilled workforce spawned by a massive
investment in education.

Just as 100 years ago cheap US production caused displacement of labour forces in Europe, the West is suffering now, particularly with high levels of structural unemployment and a flood of well-made, cheap goods. If the twentieth century belonged to America, the twenty-first is likely to belong to Asia.

Australasia is ideally placed to be the platform for investment into the Asia-Pacific region. This is already a major global region in its own right accounting for 25% of world GDP, compared with Europe’s 37.5% and North America’s 28%.

More fundamentally, Australia and New Zealand are increasingly integrating their own economies, expanding their trade and investment activities into the Asian region. Almost two-thirds (and rising) of Australia’s exports of goods and services are to other parts of the Asia-Pacific region. Australia and New Zealand, along with the United States and Canada, also are key members of APEC, symbolising the permanent re-orientation of trade and investment horizons away from traditional European roots.

We are now approaching not just a new century but a new millennium. What will be the drivers of this new era? I suggest that there will be five dominant influences and trends which will impact on the way we work and live. These, in turn, will shape the pattern of investment. They are globalisation, technology, ideology, individualism and communalism.

Today we all recognise that we work and invest in a global village. For us in Australia the world really is our oyster and we are no longer restricted by the tyranny of distance. Indeed, in some respects our geographic isolation is a virtue. We can access overseas capital and technology to improve our own living standards. We now trade with the whole world and not just the motherland.

Yet globalisation causes us some discomfort. Its economic consequences are both an opportunity and a threat. In order to survive, let alone prosper, we have to be able to compete. This imperative conflicts with our history and the enviable lifestyle we have become accustomed to. Many of the institutions which have served us well evolved a century ago to deal with the industrial revolution.

A century ago the development of the combustion engine, the discovery of flight and the ability to transmit sound through airwaves revolutionised the way we work and live. However, it took half a century for their full impact and potential to be realised.

The development of the microchip, I believe, will have the same impact as those discoveries a century ago. To date the potential has been scarcely scratched. Your children and especially their children will all be computer literate. Computer power in the future will completely change the way in which work is done and this in turn will impact upon the way in which we live.

The 1990s has seen the erosion of communism and the adoption of democratic capitalism throughout Eastern Europe and parts of Asia. We have experienced the dislocation stemming from these dramatic changes; the benefits are only now slowly emerging. The last decade has seen some two billion consumers added to the globalised capitalist economy, all of them wanting what we have taken for granted.

Ironically, at the very point in history when capitalism and democracy have triumphed as dominant ideologies in the emerging countries, in the industrialised world their deficiencies are being exposed. The democratic process is increasingly becoming fragmented to reflect conflicting and competing self-interest groups. In turn, our societies are becoming less equal with adverse social consequences such as family breakdown, increased crime, greater demands on welfare agencies and reduced personal security. Global competitive pressures, political fragmentation and a widening gap between the haves and have-nots in our society are reducing the power of governments.

If this sounds rather gloomy it should be recognised as a transition and not as a permanent trend. We should view it in much the same way as the latter part of the nineteenth century which, as we have shown, witnessed much social and political turmoil as the prelude to unprecedented economic prosperity.