Help! I've lost my DIY Superannuation Trust Deed ... Never fear **Tony Negline** has the solution in **WEALTH on TUESDAY**

LIC's Light Up The Market. **Andrew Main** examines the revival in Listed Investment Companies in **WEALTH on TUESDAY**

Surviving the Fed's roller-coaster

History offers crucial lessons on what we should expect

STIRLING LARKIN
GLOBAL INVESTOR

CHANGE is often difficult to predict and the consequences can be hard to see as we are often slow to shift our beliefs.

We know US monetary policy tightening is coming but it is hard to know when and even more difficult to predict the impact.

Fortunately, history often provides us with the best lessons for what to expect. The Latin expression "ides of March" may best describe our predicament, because as well as infamously coinciding with the death of Julius Caesar, it was actually a term used to express a segue between lunar years, which were perceived as new periods of change.

The transition in the US from central bank stimulus to monetary policy tightening — which will be witnessed by the expected rate rise by Federal Reserve chairwoman Janet Yellen sometime this year — is set to become a historical event that will have direct implications for the global investor.

Understandably, much focus in recent times has been placed on the words and sentiment of central bankers, who have become the circus ringmasters using their balance sheet expansions to stoke the performances of their respective economies and markets.

But with the end of such expansions in sight, at least in the US, it becomes timely to learn from the lessons gleaned from history, which in the US, were the years following 1933.

Preceding the Great Depression and the partial US recovery in 1933, the "roaring 1920s" years saw a debt-driven boom that was inextricably pegged to gold bullion, referred to as the "Gold Standard" era.

Strict adherence to the Gold Standard once the Depression hit in 1929, prevented the Fed from expanding the money supply to stimulate the economy: it also prevented it from funding insolvent banks and government deficits.

For the US, the turning point came when, in April 1933, president Franklin D. Roosevelt passed "executive order 6102", which in effect, criminalised the possession of monetary gold by any individual, partnership, association or corporation, thereby ending the practical implications of the US dollar's convertibility to gold bullion.

Once off the Gold Standard, the Fed became free to engage in money creation, which today is politely referred to as balance-sheet expansion. Similar to this historical experience, following the GFC, the US today has witnessed "reflation" and debt deleveraging through a combination of rising nominal incomes, default and debt repayments, which can now safely be recognised as an economic recovery.

Most interestingly, however, as the table illustrates, during both corresponding periods of money supply expansion — that is the Fed regime of chairman Marriner Eccles from 1934 onwards and the modern regimes of Alan Greenspan, Ben Bernanke and now Yellen — also saw the highest levels of US stockmarket volatility.

As Michael Cembalest, chairman of Market and Investment Strategy for JPMorgan Asset Management recently observed, the Greenspan/Bernanke strategy of using ultra-low real policy rates to manage the business cycle has triggered a wild ride for investors.

This ride has been more volatile than the inflationary era of chairmen Arthur Burns and G. William Miller in the 1970s, more volatile than the tight money eras of William McChesney Martin (50s and 60s) and Paul Volcker (80s), and more volatile than the Marriner Eccles era when the Federal Reserve was dealing with the latter half of the Depression and years leading up to World War II.

Cembalest highlights that the combined 18 per cent equity market volatility of the Greenspan/Bernanke era is roughly equal to that which prevailed before the Fed existed at all (1913), when the US was beset with frequent deep recessions and depressions. He goes on to conclude that given these realities, we should be prepared for a realistic amount of volatility before the "Central Bankenstein" era is over.

Referring to not only US central bank intervention, Cembalest's comments have immediate implications for the Australian global investor as well. In the minutes of this month's meeting the Reserve Bank of Australia flagged the key takeaways from the half-yearly Financial Stability Review, ahead of its official publication on March 25.

During a time when Australian ASX 200 equity valuations could well be considered earnings-per-share and return-on-equity stretched, the RBA noted risks that the "search for yield" trend is currently distorting pricing in financial markets and is further exacerbated by a rapid growth in credit in some Asian economies.

This is the polite way of saying that China's domestic leverage has been overdone.

As I've noted previously, the RBA has little real influence over the direction of our Australian dollar and it continues to maintain its stance that our currency remains "above most estimates for its fundamental value".

With all this knowledge in hand — reasonable expectations of more volatility ahead, distorted Australian and overseas earnings-per-share and return-on-equity stockmarket valuations and stubborn currency pairings driven by macroeconomic forces out of our control — it now becomes ever more prudent to accept that change is afoot and that the investment environment could be very shortly turned on its head.

The anomalies of the past three years which saw hedge fund managers underperform, because of "financial repression" and benchmark favourites such as index ETF-trackers prosper solely for being at the right place at the right time, may be inverted once Yellen normalises interest rates.

The global investor should nevertheless take some comfort from the knowledge that the US business cycle is still midcourse and their real economy has legitimate room to grow.

When reflecting on the "wealth effect" of central bank stimulus, it may be wise to remember the words of Caesar, who said that fortune can bring about great changes in a situation through very slight forces.

Larkin Group is a Wholesale Wealth Adviser focusing on high yielding global investments www.larkingroup.com.au

AFP

The Federal Reserve's expected rate rise under chairwoman Janet Yellen will have implications for the global investor

US equity market volatility by Federal Reserve era

FROM	TO	FED CHAIR	DOW JONES INDEX VOLATILITY
Nov 1934	Jan 1948	Marriner Eccles	**16.9%**
Apr 1948	Mar 1951	Thomas McCabe	**11.7%**
Apr 1951	Jan 1970	William M Martin	**10.3%**
Feb 1970	Jan 1978	Arthur Burns	**15.1%**
Mar 1978	Sep 1979	G William Miller	**13.0%**
Oct 1979	Aug 1987	Paul Volker	**14.8%**
Sept 1987	Jan 2006	Alan Greenspan	**17.4%**
Feb 2006	Jan 2014	Ben Bernanke	**20.3%**
BEFORE THE CREATION OF THE FEDERAL RESERVE			
May 1896	July 1914		**18.1%**

Source: Robert Shiler dataset. January 2014

Weigh the risks before investing in technology

ROGER MONTGOMERY

TECHNOLOGY is a broad sector where we believe the rewards can be enormous, but there are some experts who say the future isn't bright.

A moral dilemma has arisen in technology investing that cannot be ignored. And while it may so far be a dilemma only for theorists, investors and regulators, it will become a very serious subject.

Think about all the apps in the world whose "terms and conditions" you have already "agreed" to. Many of these apps, embedded in your smartphone, offer mundane benefits such as a discount on Tim Tams when you're in the biscuit aisle at the supermarket. But that app is tracking your location, it knows where you live and what your spending habits are. Other apps track your speed, your altitude, whether you are awake or asleep, whether you are sticking to your budget; they record your family life in pictures and your voice. They will soon be connected to your vehicle, if not controlling it. And if they are tracking the locations of others, they may also know who are with.

Apps have your thumbprint, your passwords, your medical history, and patents taken out by Apple and others are reported to be seeking to use the tone of your voice to determine if you are happy, sad or angry.

If you throw in all of the access apps have to your assets, transactions, purchases, bank accounts and financials, you can quickly accumulate enough apps in a smartphone that in aggregate, know everything about you. And that is without the proliferation of "record my life" apps that track your daily life as well as everything that happens on your phone.

The AAMI Safe Driver App offers reward points if you drive well, but it also records hard acceleration and braking and whether you are on the phone. The collection of all this data will be justified on the grounds of economic rationalisation. The insurance company will make more money for its shareholders if it can reduce expense claims. What other, more sinister possibilities can be construed?

When freely sharing this information with each other and the companies seeking to improve our lives, we must subconsciously assume that the geopolitical status quo will always be maintained. But imagine a world where this isn't so. What if extremists took power? What if all the information about you is not held by disparate companies but accessible by one intelligent machine that uses the world's networks as nerves and its servers as synapses? Or what if it were all accessible by a government or military force that didn't share your values?

The path begun by insurance companies wanting to use driver or health-tracking apps to reduce their claims expense ends possibly with a second class of uninsurable people. Companies that don't want the liability might exclude this group from gainful employment. An underclass emerges.

Recently a group of scientists and entrepreneurs, including Elon Musk and Stephen Hawking, signed an open letter warning that without safeguards on intelligent machines, mankind could be heading for catastrophe.

While the short-term risk of artificial intelligence might be millions of people out of work, in the longer term, experts fear it could wipe out the human race. And we aren't talking about crackpots here either. Musk founded Paypal, Tesla Motors and SpaceX. Hawking is a world-famous theoretical physicist.

Hawking said recently that AI "could spell the end of the human race". He earlier noted that creating AI "would be the biggest event in human history, (but) unfortunately it might also be the last."

British inventor Clive Sinclair also thinks AI will doom mankind. And even Microsoft founder Bill Gates has serious concerns about it.

At The Montgomery Fund, our investors have been fortunate to have profited from the near-doubling (or better) of the share prices of companies like CSL, Seek, Magellan and Ramsay Healthcare. There's also been plenty of gratitude here for the recent takeover offer for iiNet. We see our stewardship as an honourable calling but the returns we generate could be for naught if we aren't policing the investments we make and the companies we fund in the near future.

As investors we have a responsibility to consider the impact of our investing. I had not previously contemplated the impact of our investments on the human race itself.

Roger Montgomery is founder and CIO of the Montgomery Fund.

There's still more questions than answers when it comes to cancers

RICHARD HEMMING
UNDER THE RADAR

INVESTING in the biotech sector looked very much like playing molecular roulette last week, with two cancer treatment developers receiving very different receptions from the sharemarket.

Shares in Sirtex Medical plummeted 55 per cent in one day, while Novogen's stock has climbed 61 per cent this month.

Both updated the market on the progress of their respective treatments. In Sirtex's case, investors were disappointed with the results of its 532 patient trial titled SIRFLOX because it indicated that its drug won't be the first line of treatment for those with liver cancer.

Separately, Novogen released a proof of concept study indicating its Anisina chemotherapy worked in conjunction with other drugs on animals. Even after its fall, Sirtex has a market cap of $1.2 billion, while Novogen's could be considered a rounding error of the former, with a market cap of just over $50 million.

What should prospective investors in the sector make of all this? For one thing, Sirtex's existing product, SIR-Spheres, which has treated liver cancer for a number of years, should produce sales in the region of $180 million in fiscal 2015 and has delivered dividends for a number of years also.

Meanwhile, Novogen's drug Anisina is yet to be tested on humans — this may not happen until 2016.

Whereas Sirtex is able to be valued on a reasonable basis, Novogen is based on hypotheses. Novogen at this stage might have been better suited to private equity, which can absorb the risk of a company whose basis is purely research and development. However, both the price moves do go to show the binary nature of valuations in biotech land.

Which brings us to the question of Sirtex's valuation. In late February, when it was trading at about $35, this column said that if SIRFLOX flopped, Sirtex's valuation could fall as low as $12 a share.

As it happened, SIRFLOX didn't flop but the stock briefly traded as low as $14.80 on its latest clinical trial disappointment. At the time of writing, it's trading at $21.48, and has still more than trebled since I first recommended the stock in July 2012.

The Sirtex flagship product SIR-Spheres is mainly used as a salvage therapy, which is the last line of defence for liver cancer sufferers. The discounted cashflow valuation for this equates to about $18, according to Goldman Sachs, while the $12 valuation I previously referred to in this column was based on actual revenues.

Because of its design, SIR-Spheres only treats liver cancer. But in the SIRFLOX study it was also combined with a range of chemotherapies to treat people who had colon cancer, and a secondary liver cancer condition. The study showed that it didn't extend the lives for those people, who represent a much larger group.

Crucially, the goal for the treatment is to achieve strong statistical evidence for overall survival, which will promote it to being the first line of defence for oncologists treating liver cancer. This market is 60,000 and is only accessed if SIR-Spheres delivers compelling clinical evidence. If this occurs, oncologists can be sued if they don't use SIR-Spheres.

Sirtex is conducting more clinical studies, with one due out at the end of the year, which could boost its chances of being a first line of defence for those with primary liver cancer. This would see a re-rating of the stock, but it's doubtful the market is substantial enough to justify $40-plus valuation.

Don't hold your breath because often with these stocks it is better to travel than to arrive.

Richard Hemming is an independent analyst who edits undertheradarreport.com.au