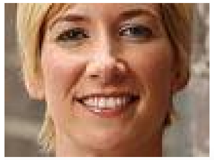
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superannuation

GFC was 'merely the beginning of the end': What do you do when the iceberg hits?

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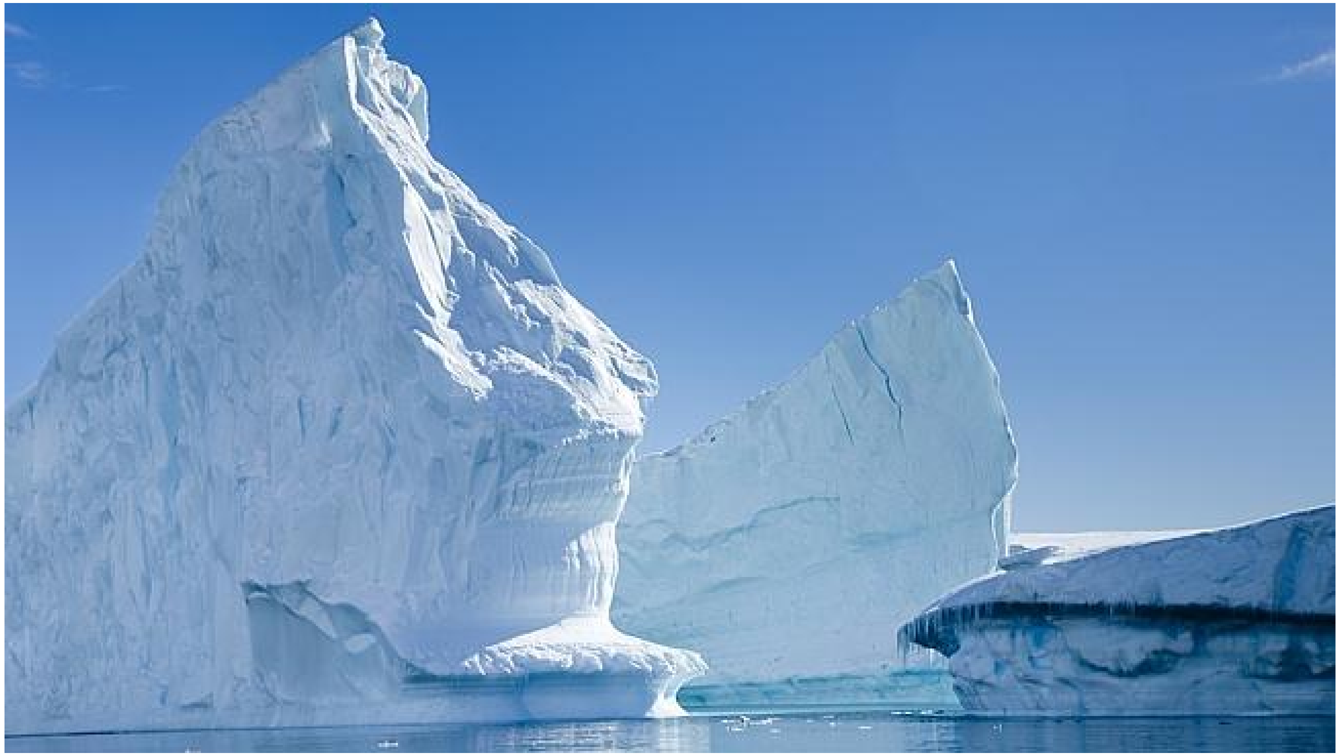

The next crash is coming, argues ABC Bullion chief economist Jordan Eliseo. *Source: Getty Images*

IF you’re approaching an iceberg, what should you do? The GFC was “merely the beginning of the end”, and we are heading towards a titanic disaster: the next financial crash.

That’s the view of Jordan Eliseo, chief economist with ABC Bullion, who argues the problems that led to the onset of the GFC haven’t been dealt with and global economies are arguably in an even worse shape today.

Governments around the world are running record budget deficits hand in hand with extreme levels of public debt, interest rates have been slashed to zero or below, and trillions of dollars, euros, yen, francs and pounds have been “created out of thin air” and pumped intravenously into the world’s economies.

His comments echo those of HSBC chief economist Stephen King, who recently issued a dire warning that the global economy was “like an ocean liner without

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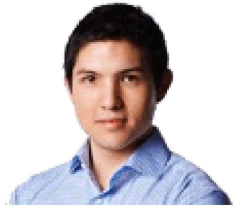

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EXCHANGE	POINTS	CHANGE	PERCENT
Hang Seng	26907.85	+220.21	+0.83
ASX200	5556.7	+78.1	+1.43

lifeboats", with governments' traditional recession-fighting ammunition all but exhausted following an "insipid" post-GFC recovery.

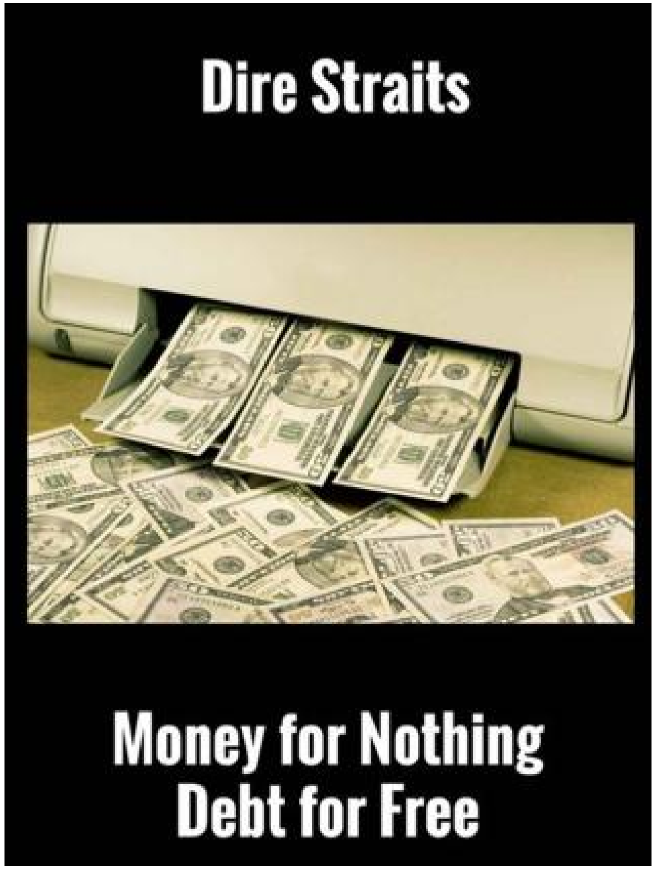
Whether or not you believe the doomsayers that another financial crash is coming, it can't hurt to protect yourself. Think of it as a Pascal's Wager. But how?

As the kind of person who goes out "armed with an umbrella and a warm jacket" if he sees dark clouds in the sky, "even if every TV weatherperson swears it is going to be a sunny day", Mr Eliseo's argument is simple: in a volatile time for asset markets, the key to protecting and building wealth is learning to play defence.

Global financial markets are becoming "totally divorced from economic reality", he writes in his new book, Dire Straits: Money for Nothing — Debt for Free, arguing that the GFC was "not the full price" for decades of debt-fuelled consumption.

"It was merely the beginning of the end, and the resulting hangover has barely begun," he warns. Australia is "no longer the lucky country" he says, and it's only a matter of time before our chickens come home to roost.

Jordan Eliseo, economist. Source: *Supplied*



He says we need to protect ourselves. Source: *Supplied*

All happy families are alike, and every unhappy family is unhappy in its own way — the elephant in the room for Australia is the distortion caused by property and superannuation.

"While Australia has plenty of potential, our economy has become massively distorted. More than 75 per cent of everyday Australians' wealth is trapped in their super fund or their house," Mr Eliseo said. "That's not stimulating the economy, and it's not what you need for people to become more prosperous."

The rising cost of housing, both commercial and residential, is holding back private sector job creation, which will be the key to any kind of meaningful long-term sector job creation, which will be the key to any kind of meaningful long-term recovery. The problem is, any large correction will send shock waves through the financial sector.

Like the banks, the property market has become too big to fail.

“We’ve been brought up to believe we must own a house and that’s the Australian dream. I think there’s a good chance it will become the Australian nightmare in the next 10 years,” he said.

“A major crash would obviously wreak havoc not only on asset values and the net worth of everyday Australians but cause major stress to the financial system itself. But if prices keep skyrocketing at five or six times the rate wages are growing, that’s going to have a huge impact on the economy as well.”

The more money that is tied up in property — either through rental, home deposits or mortgage repayments — the less will flow into the real economy. And the RBA, while well-intentioned, is only causing more problems by slashing interest rates.

“It’s the old saying, when all you’ve got is a hammer everything looks like a nail,” Mr Eliseo said. “All they’ll be doing [if they cut further] is following the rest of the world down a dead-end path.”

The Party's Over

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All that said, what should we do? Firstly, he argues we should consider property as a consumer lifestyle purchase, and not an investment. “Your investment portfolio is very different to your lifestyle as a consumer,” he said.

“If you’re able to find a house you’re comfortable living in and able to access without leveraging yourself to the hilt, buy it as a consumer choice.”

Like any other expensive consumer item, you have to weigh up whether you can afford it, because the reality is that if you buy a $750,000 home and it bubbles up, “so does the home next door — so you haven’t really made anything”.

For the rest of your assets, Mr Eliseo advocates the ‘permanent portfolio’ model: 25 per cent shares, 25 per cent bonds, 25 per cent in cash and 25 per cent in gold. “Obviously I work for a gold company, but I’m certainly not one who says people should have all their money in gold,” he said.

But he’s worried about how heavily superannuation — which for many everyday Australians in their 20s and 30s is likely their single biggest asset — is exposed to the share market, bonds and cash, all three of which are facing headwinds.

“As they’re invested now, I would not be surprised to see those funds lose at least half of their real value in the coming years,” he said. “That’s because all the funds follow exactly the same models with very few tweaks."

Thirdly, if at all possible, opt for a self-managed super fund. The savings from fees paid over the period of your working life alone make it an attractive proposition.

In the case of a 35-year-old earning $75,000 a year; getting a three per cent pay rise per annum; with $50,000 already in super; contributing an average of 10 per cent income until retirement, he calculates that at the age of 70, the lifetime fees paid to your retail fund would amount to $205,000.

The fees paid to run a self-managed fund over that same period would come to $72,000, or a potential cost saving of $133,000.

"Self-managed super is the ultimate solution, provided you've got the right balance, have self control and are more engaged with your money," he said.

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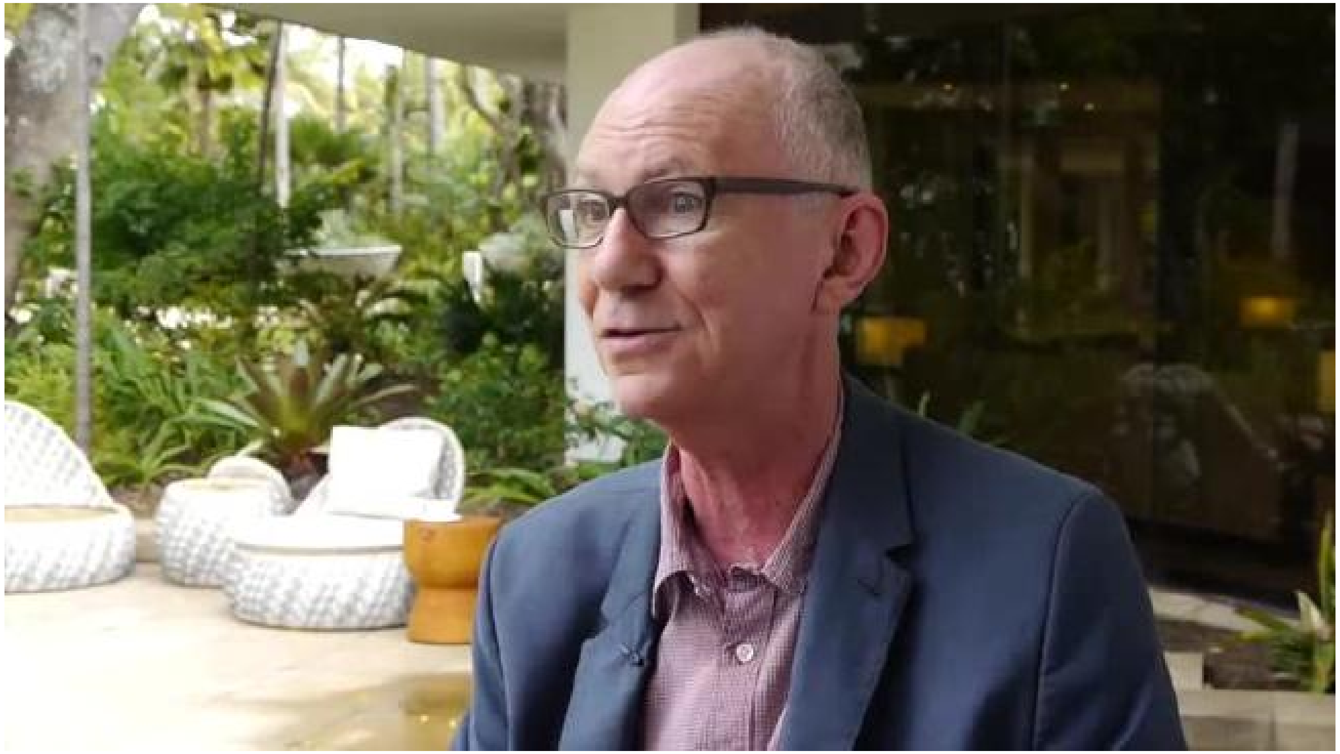

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Jeffery Paul of Victoria
Posted at 10:19 AM June 09, 2015

While there may have been some good points throughout the article, it was all negated by the rubbish 'tips' given at the end. ' if at all possible, opt for a self-managed super fund' is awful advice. Self-managed super is something that should be carefully planned and managed and is certainly not for everyone. I have lost count of how many SMSF's I have wound up due to them being horribly set up/managed and bordering on non-compliant. Nobody should consider SMSF without seeking professional financial advice. As for a permanent allocation of 25% into gold; only someone working for a gold company would advise that. Over the past 30 years, gold has had practically no capital appreciation until post-GFC when it shot up to an unsustainable high and is now working its way down. Rather than direct gold, investing in gold mining companies, gold ETF's and the like pose all the same risks as investing in global equities, and many of these companies are showing very poor returns at the moment with an uncertain outlook for the future. Investors need to do their own research and speak to a professional financial planner before acting on any investment 'tips' or 'general advice' found online

John of Sydney
Posted at 10:05 AM June 09, 2015

Fiat Currency, Bank Savings, Stocks, Super, Jobs will be destroyed in the future. Buy a house with no LOANS and brace your self, and stock up on food. Super is a SCAM, get out before the crash comes. Private Central Bankers are going to destroy West, they greedy folks, have already sucked up the entire structure, it's just a matter of time it gives way. They are parasites.

Jez
Posted at 9:45 AM June 09, 2015

I am trying to see the news article within this obvious marketing of gold. Anyone just needs to take a look at what the price of gold has done in recent years. Plus, can Mr Eliseo tell the retirees how they can make pension payments from holding gold?

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