

Gosling on the big picture strategy, A\$, international shares

22/6/15

The surprise article of the week is this one:

- <http://www.afr.com/personal-finance/think-laterally-in-a-challenging-investment-environment-20150618-gh7iqz>
- Susan Gosling, head of investments at MLC (owned by NAB), paints a picture of the investment of the investment world in a manner very consistent as the was I paint it for you – perhaps not quite so bluntly. So why am I surprised? It is very rare that anyone from the major Australian institutions is prepared to express a view in which they might be putting their reputations on the line- but Sue Gosling always has thought outside the square – and maybe this simply reflects the extremities of the times. Here are some key quotes:
 - *Defensive investments such as cash and bonds won't weather a severe storm, which is why Susan Gosling focuses on currencies, derivatives and gold, writes Kate Cowling.*
 - *Susan Gosling hasn't seen an investment environment this challenging for more than 30 years.*
 - *One of your most conservative strategies contains zero Australian equities. What are your concerns?*
 - *Australia sailed through the GFC, partly because of what happened in China, but if we look at Australia's position today, household debt is extremely high, among the highest in the world and that's gone into housing. It hasn't gone into any productive investment, but if we look at where funding for housing comes from, to an extent banks are dependent on raising capital overseas.*
 - *You could envisage Australia having its own crisis (BB: She is talking credit crisis) where maybe even the government has to come in and assist the banks. (BB: Brave comment for someone who, in effect, works for NAB.) So we started rethinking, again, for our less traditional funds. Does this exposure actually make sense?*
 - *Bruce Baker comment: While I agree absolutely with Susan's assessment (and that of David Murray on this matter), she is in effect saying that her ultimate employer's (ie. NAB's) risky mortgage-lending practices may result in taxpayers, bailing out NAB. This is a huge admission by a senior manager with the NAB group of companies - and I suspect that is an admission that the senior executive team within NAB cannot be too happy with this. And obviously, in the scenario Susan paints, the share price of NAB would be smashed, And in the scenario Susan is painting, Aussie residential property prices would experience substantial falls on broad averages (high probability).*
 - *What could fill the role of Australian equities in the portfolios you manage?*
 - *One of the things we're looking at is an Asian equities exposure, but not benchmark relative. [We want] a capital preservation focus. If you're investing with a manager who's got the expertise to sift through and find the companies that actually have got that level of protection, that have a margin of safety built into them, then that's what we're after. We don't have that exposure, but it's one of our research strands. It's just indicative of the need to think more broadly today.*
 - *If bonds and Australian equities are expensive, what options do I have for diversification?*
 - *A lot of people think foreign currency exposure will increase risk, but one of*

the good things about living in Australia is it doesn't tend to work that way.

- *The role of derivatives in portfolios can be divisive but I understand that you are quite keen on them.*
 - *BB comment: Susan Gosling is applying here, similar logic for why we use low volatility hedge funds.*
- *What else are you looking at to strike that balance between risk and return?*
 - *Gold is one thing that we would have never normally thought about, but we're looking at it*