

# STUART CARLYON

Financial advisers for your lifetime goals

## The way forward – Volatility, Uncertainty, Complexity and Ambiguity



One thing we've noticed among many of our clients is a mild grief process as we contemplate a future without the opportunities to travel abroad. Nothing wrong with New Zealand, but an adventure in Europe or the USA or places more exotic are, for now, completely off the cards. The investment industry is suffering the same sense of grief as to whether there will ever be normality again as we used to know it. The investor scene is evolving constantly.

This year your advisers attended the annual Portfolio Construction Forum in Sydney, well, we did so by Zoom and the theme, no doubt reworked from what the organisers expected last year, was the COVID inspired "A Whole New World". The acronym VUCA (see our headline) dominated the presentations and discussions.

### 5 Global Risks

Of course, the COVID Pandemic took centre stage and the opening session looked at the big picture of the world including reference to the influential work of the late Hans Rosling.

Rosling, a Swedish physician, authored the popular book "Factfulness" which provides a deep discussion about decision making in these uncertain times. He was nominated by Time as one of the 100 most influential people on our planet.

His work highlights the five global risks that concern us. Given that he died in 2018 his first choice was prescient.

- Global pandemic
- Financial collapse
- World war
- Climate change
- Extreme poverty

Throughout his work as a writer, researcher and broadcaster, Rosling was a champion of facts. His advice: take small steps, insist on data and beware of fortune tellers.

Picking through each of the five big – some might say existential – risks, Rosling set forth some clear approaches to handling each. He was a strong advocate of global collaborations in science, in

economics and planning. The opposite is a disaster. Consider how China, Russia and the USA and Europe have gone their separate ways in research. Yet despite the political, economic, and other human imperfections that have taken us to a 21st Century precipice, Rosling saw much cause for hope. As he says of pandemics: "The world is better prepared to meet these [medical challenges] than ever before." But his advice is to take the challenges in small bites, so we can work forward to solving the world problems one step at a time.

**“COVID-19 has raised global awareness of low-probability yet high impact risks. There will be more preparedness for future storms, be they medical or environmental.”**

### 6 Silver Linings

All was not doom and gloom for another economist cited by the conference. Mohamed A El-Erian economist at Allianz has highlighted six welcome trends arising from COVID-19.

His six reasons to celebrate include the rapid advance of medical research triggered by the pandemic. Second, despite going their separate ways politically, scientists within companies and academia have worked together more collaboratively than before. This might be a taste of things to come.

A third benefit – is the mash-up between medical research and non-medical technologies. Using an app to track and trace those exposed to COVID is just one of thousands of this type of technological merging.

Reason to be cheerful Number Four: COVID-19 has raised global awareness of low-probability yet high impact risks. There will be more preparedness for future storms, be they medical or environmental.

The fifth outcome is about Governance. El-Erian, who served on Barack Obama's Global Development Council, must have been appalled at the US leadership, or otherwise, concerning the wearing of masks, but likewise



he would have noted how in nations such as New Zealand, the Government took extraordinary measures, under emergency, to deal with the pandemic. Emergencies are going to challenge our political structures.

The re-appraisal of work-life balance is the sixth benefit, and with some heat taken out of the economy many people, though not the unemployed, have enjoyed a calmer sense of well-being.

### Same trends but on steroids

Not all this optimism was shared. In a session run by Professor Vikram Mansharamani, a Harvard-based watcher of business, economic and social trends, he argued that COVID has simply accelerated the various trends we were witnessing before 2019. These include:

- The necessity for redistribution of wealth
- Technology advance comes with concerns like privacy issues
- Changes in real estate – the work from home dynamic
- Cyber risk
- Alternative energy
- De-globalisation
- US-China rivalry – multi-dimensional rivalry
- Supply-chain shifts – Just-in-Time rules are shifting to a more risk averse “just-in-case” style
- Shorter, smaller carbon footprint, more national control

In his view one of the really serious trends is the widening inequality between countries where the poorer people suffer disproportionately. He also sees a disconnect by financial markets and the economy. Consider how the US market rode to new highs this year even in the face of mass unemployment.

Mansharamani also portends more tension between Communism and the West, with a reappraisal of capitalism which dovetails with another trend: a re-evaluation of the purpose of corporates.



Inherent is a re-evaluation of corporate growth and the possibility of de-globalisation.

Furthermore, corporates may change their structures. Commercial real estate is being disrupted with swift COVID-inspired re-thinking about office space. Yet on the other hand a ‘work from home scenario’ comes freighted with increased cyber risk.

He raises intriguing scenarios for investors. Do we get out of China?

Are the big corporates about to rethink the way they operate: their sustainability? For our clients, we take into account the wider backdrop that frames the investment scene when building our tailored portfolios.

We left the conference illuminated and able to see a multitude of good and often conflicting points. Volatility, Uncertainty, Complexity and Ambiguity. These are accurate watchwords. So is Hope.

### Creativity blooms under lockdown

Pippa Malmgren was the last speaker at our conference, and in prior presentations her role as an economist and a Presidential advisor saw her focus on global issues. This time - as a co-founder of H Robotics in London, a company which makes aerial intelligence systems (like drones) and autonomous vehicles for industry - she spoke about art being the wellspring of innovation and renewal. As she observed: Covid-19 has been pushing people to think outside of the box to solve changed circumstances.

Her talk made us think about one very loyal client of ours, Karin Montgomery, an interior designer, who has made the most of lockdown. She started to create exquisite paper flowers, each of which requires incredible concentration and patience. The flowers are replicated botanically. Her body of work resulted in an exhibition at Anna Miles Gallery post lockdown, and every flower she produced was sold.

The photos of the flowers shown here in the newsletter are some of her creations (the blue vase is by Richard Stratton, and the ikebana vase by Isobel Thom). We’re pleased to announce that Karin has another exhibition coming up in December.

### Correspondence from the Custodian

Portfolio clients will have received statements sent directly to them by the custodian as required by legislation twice per year. These include a statement of holdings (not value), cash accounts and transactions that have occurred in the prior 6 months. Inevitably these statements will reflect the date they were compiled.

More relevant information is emailed by us six monthly, which will tell you your current position and performance. The custodian statements are a security measure to independently verify your holdings. If you do not want to receive them by post, you can go online and receive these electronically.

While we are on the subject of custodians: ASB bank has sold Aegis to MMC a custodial operator who provides Fund Administration, Wealth Administration and Fund Custody services. The bare trustee which holds your securities stays the same, namely Investment Custodial Services Ltd (ICSL) so you will notice no change on a day to day basis. The move reflects a trend of banks moving out of the wealth management space.

### Overhaul of our website

Our website has had a makeover!  
Go to [www.stuartcarlyon.co.nz](http://www.stuartcarlyon.co.nz) for a look.