INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

THE TWITTER TAKEOVER ASKS

BIGGER QUESTIONS

WE AREN'T READY TO ANSWER

BY LUKA BORICH

+ MORE ON: PERSONAL FINANCE | TRIPS | RETAIL INVESTORS

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An update from the fund

AN OVERVIEW OF THE YEAR SO FAR WRITTEN BY OUR INVESTMENT COMMITTEE ANALYSTS

2022 SO FAR

To begin the year off, the Investment Committee ran an information workshop and interviews to select new analysts to join our team. Recruitment this year was incredibly competitive and made the decision process very challenging. We were delighted to welcome nine new Junior Analysts, each coming from a unique background and bringing fresh ideas and perspectives to the Committee.

We took our new analysts through an onboarding programme, which included an induction and three technical workshops. The committee Chair, Michael Smith, facilitated the induction, bringing analysts onto the same page with how we will work together this year. Anna Marsden and Daniel Mar then delivered a workshop discussing the qualitative components of a pitch and provided a market update, with Joe Strawson then running through a comparable valuation tutorial.

We have now begun researching and valuing new stocks to add to the Fund, with the first pitch of the year being Contact Energy by Michael Smith, Daniel Yang, and Freddie Clementson.

CONTACT ENERGY

Contact Energy (NZX: CEN) is the 2nd largest electricity generator and retailer in New Zealand. Electricity is a necessity of life, and with high barriers to entry for generation, Contact provides a defensive investment opportunity. Growth tailwinds include expanding energy demand (introducing EVs) and population increase.

Contact displays superior financial performance relative to its industry peers. With their new Tauhara Power Station project underway, Contact proves itself as the leader in low-cost geothermal renewables and takes advantage of decarbonisation demands.

The Investment Committee passed CEN to the valuation stage by a vote of 11/16. Michael Smith, Daniel Yang and Freddie Clementson will run the valuation.

"Powering our portfolio"
- Daniel Yang

GLOBAL

The Twitter takeover asks bigger questions we aren’t ready to answer

BY LUKA BORICH

There’s a level to fame where it is impossible to not know about someone. You may have no interest in Elon Musk or his happenings. Yet when you just read his name, you almost certainly had a reaction; such is his prominence these days in the business world. In the public eye, he is the iris. His latest endeavour to buy Twitter has understandably ruffled some feathers.

Musk is not the first billionaire to buy a media company. Jeff Bezos bought The Washington Post; Jack Ma bought the South China Morning Post; John Henry bought the Boston Globe.

Granted, Twitter is a different animal. Twitter is a social media platform, which in itself should explain both the appeal to Musk and discontent of many others. Twitter drives genuine discourse with its procurement of real time conversation mixed in with political announcements from world leaders.

Musk himself is a character. His weird and awkward demeanour is relatable to many. An unconventional approach to PR and obsession with technology make him a hard investment to profile. He's both what a smart investor should look for and avoid in a company CEO. Musk vibrates with that energy of the kid who's trying to act edgy for everyone to see, but when he goes home he's still an oddball.

Your faith in the Elon will largely shape how you view the acquisition. He has - either through ignorance or intent - thrust himself into the thorniest of online debates: free speech. What is free speech? How free are we? What are the responsibilities of a private company with respect to what its users say?

These are all big existential questions, the answer to which will not be found here. Ironically, Musk's tweet about his idea of free speech being "that which matches the law" reads very un-Musk-like; as if he was instructed to say it. Maybe he was, maybe he wasn't, but what is clear is that like his predecessor Dorsey and his colleague Zuckerberg, kicking the can down the road is option A. Censorship may be loosened, but hope for a groundswell of change might be expecting too much.

The truth of the matter is that none of us are ready to decide the role of free speech as a right to exist online. Nor are we ready to answer the monster-under-the-bed looming large: how much power for one man is too much power?

To recap Musk's credentials, he currently heads SpaceX, Tesla, The Boring Company (transportation company) and Neuralink (human brain computer technology).

Adding Twitter to this portfolio would make him, indisputably, at a level of influence maybe never seen before. He controls more wealth than the GDP of many countries, yet is not elected.

Again, this is not a question we are equipped to answer. Some would say he was too powerful before Twitter. Some reject the premise; that there is no such thing as too much power. I'm not here to tell you who's right, who's wrong, or who's going to whatever hell NFT creators surely end up in.

I'm here to say that Elonites will love the deal, Elon sceptics will not, and Elon has 66 billion reasons not to care what you thought to begin with. He's the man with the microphone now, and we have to listen to him sing.

PERSONAL FINANCE

How to get and secure the bag (Student Edition)

BY KEEGAN MACDONALD

Ahoy, and welcome to my first article for the Bulletin! I wanted to keep this piece as light-hearted and enjoyable as possible because let's be frank, personal finance is one of the more boring topics of conversation you could have with someone. Trust me, at the most recent Bulletin social get-together, like a Dyson versus dust, I could practically see the interest being hastily sucked from several of my peers' eyes, as I explained to them my chosen topic. However, after having experienced first-hand the turmoil that poor personal finance habits can reap on a students' well-being, I figured I'd take one for the team and give this topic a good tackle. So, buckle up, you're in for a relatively mild ride!

Disclaimer: This article is not personal financial advice from the author! It is a collection of information from published books and publicly available sources, such as Sorted and MoneyHub, compiled into one place for your convenience.

My dad always told me, “Learn from your mistakes, and the mistakes of others”, so let me describe for you a few of the financial errors I’ve made during my five years (and counting) at university to illustrate my credentials, and to show you how financially ‘down bad’ I once was.

- In my first year of uni, I purchased a $1,800 gaming laptop using Student Loan Course Related Costs. But hey, it’s got red keyboard LEDs and MS Word runs mint, so you be the judge.

- In my second year, I moved out of home into a Wi-Fi-less travellers hostel, paying $232 in rent per week, without much self-control over my spending, nor a sound budget. I was sold by the receptionists’ sales pitch, ‘70% of our occupants are students’. I figured I’d get much the same experience as someone in the Halls of Residence at this hostel. However, I quickly discovered the fatal difference between language students (composed of 50-year-old Japanese grandmas, and mid-30-year-old tourists from Europe) and University students. In summary, I went broke after one semester and returned home with my tail between my legs, after achieving some of my worst uni grades to boot.

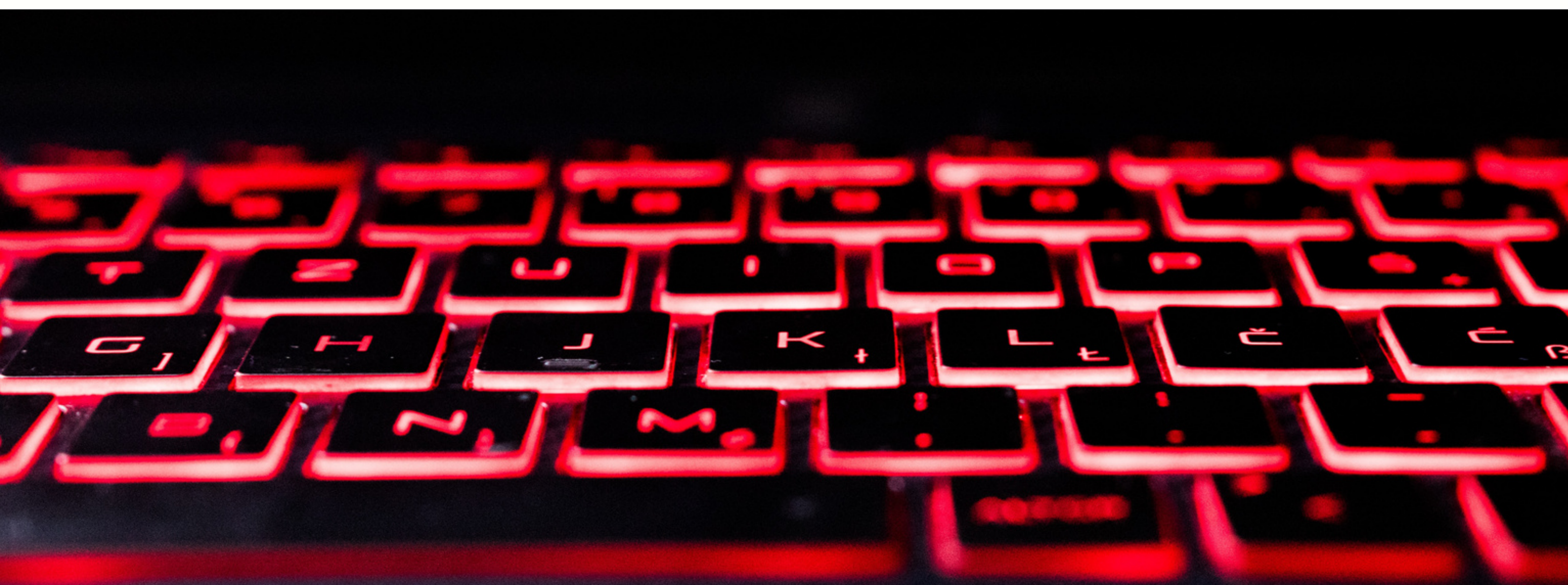
- Throughout both my first and second years, I didn’t pack lunches for university. Instead, I lived off Munchy Mart Choccy Milks, Pies, and several “Tank of the Days”. During this time, it would not be unusual for me to spend ~$80-100 per week on unnecessary junk food.

It would be a fair assessment to say that in my early years at Uni, I blew a lot of money on a lot of silly things. So, you may be wondering, “Hold up, why should I pay attention to a guy who’s had a clear history of neglecting his personal finances?”, and to that, I’d say, “Well, you raise a good point. Sadly, you’ll have to continue reading to find out”.

Rest assured, however, that in the following paragraphs, I’ve attempted to summarise a few of the most useful gems of knowledge that I would’ve wanted to know. Similarly, in line with the age-old saying about teaching someone how to fish, I’ve included a list of books and websites that have helped to educate me and put me on the path to financial freedom. I will also reference a lot of the guiding principles and tools advocated within these resources.

Helpful books and websites:

- *The Richest Man in Babylon* by George S. Clason
- *Think and Grow Rich* by Napoleon Hill
- *The Barefoot Investor* by Scott Pape
- *Rich Dad Poor Dad* by Robert Kiyosaki



- Moneyhub
- Sorted
- Reddit - Personal Finance NZ

The First Nugget: Guiding Personal Finance Principles

In the game of Chess, it is best not to memorise moves or methods, but to base your strategy on sound guiding principles to mitigate the likelihood of flaws surfacing in your game. Similarly, it is best to use sound guiding principles in the development of your personal finance strategy. If Chess isn't your thing, consider how many serves Serena Williams would have had to make before she could be confident in competing at a world-class tennis level. Masters do the basics well.

With this, let me introduce the first principle from Kiyosaki's 'Rich Dad Poor Dad'. Money is power. Some people believe money is the root of all evil. However, as students, a lot of the heartache that you may have experienced is likely due to your dispossession of money. This argument is reinforced by a study, performed by Prof. Robert Cummins of Deakin University, which found that financial insecurity produces similar feelings to that of physical torture. So, is money the true root of all evil, or is it your lack of money that is the cause of many of your problems?

Money without financial intelligence is money soon gone. We all know someone that spends in excess of their means. The financial struggles of Lil Pump, Mike Tyson, and other celebrities show how even with a bankroll of income, people can still fail. Therefore, it makes sense for students to educate themselves on how to get *and* secure the bag.

Herein lies the Second Principle that Clason so eloquently described in, 'The Richest Man in Babylon'. This principle is, "Pay yourself first". Think about the journey that money coming into your bank account takes. For most students, the money that comes into their account (income) may be from work, parents, student loan living costs, or student allowance. This income is then used to pay for expenses such as the cost of rent, food, phone bills, alcohol, and perhaps a Spotify, Netflix, or Audible subscription.

Once the week or month has ended, the student may then look back at their bank account and either see a deficit (which they will have to top up) or a surplus. If the latter occurs, they may then allocate some of the leftover cash to a savings account.

The problem with this approach is that it relies too heavily on self-control, which we as students, in general, do not have. The typical result of the above approach is that nine times out of ten, our savings account must swoop in, red cape and all, to save the overdraft day.

To conquer this issue, and before you make payments for anything else, it is recommended that you allocate a portion of your income to your future. Simply put, when your payday comes along, put 10% of your income immediately into your savings.

The '10% to savings' number is generic and a great starting point, however, if you can afford to pay yourself more, then do that. An important point to reinforce is that the savings allocation value should be a consistent proportion of your income. This will also help you to avoid the plaguing problem of lifestyle creep.

The Second Nugget - KiwiSaver

KiwiSaver is New Zealand's voluntary retirement savings scheme to help Kiwis save for their futures. You begin to contribute to your KiwiSaver once you begin working. Upon commencing a new job, you will normally fill out a KiwiSaver Deduction form (KS2). This will give you the option to contribute either 3, 4, 6, 8, or 10% of your gross pay towards your future.

To illustrate, if you earn $100 per week, and choose to contribute 3% towards KiwiSaver, your take-home pay will be $97 less taxes. In addition, your employer is expected to match your contribution to your KiwiSaver up to at least 3%. So, if you are contributing the minimum percentage of 3% with a $100 per week income, your KiwiSaver will be increasing by $6 per week, accounting for your employer's contributions, too. It is also useful to note that, under normal circumstances, you cannot withdraw money from your KiwiSaver unless it is for the purposes of buying your first home, or retirement.

KiwiSaver Providers

A KiwiSaver scheme provider is an entity that offers a collection of funds for Kiwis to invest their KiwiSaver finances with. The reason that your KiwiSaver provider/fund is so important is that many KiwiSaver funds charge different rates of interest (costs) and have varying levels of performance (returns). Over time, these factors can play a significant role in contributing to your financial wealth.

If you do not know who your KiwiSaver provider is or what KiwiSaver fund you're invested in, then google, "how to view my KiwiSaver provider and balance" and follow the steps. Seriously, it'll take 2 minutes of your time, and the potential upside is huge.

Choosing KiwiSaver Providers

This is the trickiest step, but also the most important part to get right. However, lucky for you, there are a multitude of e-tools available to help you evaluate the best provider for you. One of these is a government-funded free online service called Sorted. I have included the link to their website within the 'Helpful Books and Websites' section above. Moneyhub also has a section of their website devoted to teaching Kiwis about their KiwiSaver. Both sites contain useful KiwiSaver fund finders and comparison tools.

Like feeding you a slice of tantalising apple pie, in the interest of preventing overindulgence, I'll save the budgeting and passive investing topics for a future feature. Thanks for reading. I hope you successfully acquired some golden nugget knowledge from this article, and I wish you the very best with your personal finance adventure!

GLOBAL · COVID-19

TRIPS Agreement: Reflecting on the balance between intellectual property rights and public welfare

BY ISABELLA HO

As recognised as early as the 15th century, the rationale of intellectual property (IP) is to reward people for investing in the risky business of R&D. By granting exclusivity, IP captures the rewards of an investment and incentivizes the innovator to reinvest in R&D. Yet, when IP rights pertain to products that have the capacity to improve public welfare, the complex moral question arises: how should we balance the private interests of the innovator against the public interests in the product?

The Trade-Related Aspects of Intellectual Property (TRIPS) Agreement recognises the importance of IP by setting minimum IP standards for 164 countries to implement in their domestic laws. The idea is that anyone who invests in R&D would receive the same IP protection regardless of where they invest. And huzzah, you have a happy global investor and the world was their oyster!

But seafood isn't great under all circumstances. When the average innovator is someone from a developed nation who outsources manufacturing to developing countries, minimum IP standards prevent manufacturers in developing nations from using the products or processes for their own purposes. So when the product has the ability to combat a public crisis, not all countries can access it.

TRIPS preempts this issue by creating the exception of compulsory licensing. Compulsory licensing is a fancy way of saying that in national emergencies, any government can waive patents so that domestic producers can produce patented goods without the patent holder's consent. For example, compulsory licensing means that without Pfizer's consent, our government could legally allow a local producer to manufacture generic Covid vaccines in response to the pandemic. In return, the patent holder gets remunerated to some extent.

Although the IP-public welfare balance in compulsory licensing looks good on paper, the use of compulsory licensing in response to HIV and COVID shows us that in practice, striking the balance is really a work in progress.

In the HIV era, compulsory licensing was a lifeboat for everyone except for the least developed countries (LDCs). Most LDCs did not have large enough domestic manufacturers to produce generic versions of the HIV medication for their citizens. For LDCs, their right to waive patents in national emergencies under TRIPS was essentially a dead letter.

But things didn't end all that badly. Two years after noticing this issue around equitable access to medication, the international community managed to strike a balance by allowing LDCs to import cheaper generic versions of the HIV medication from countries that have the manufacturing capacity to produce generic medication under compulsory licensing, such as India or Brazil. And huzzah! This gives life to what was previously a dead letter and extends the lifeboat to least developed countries.

In the COVID era, we might be seeing a parallel situation where you have a law that doesn't do what it's meant to do (apparently this happens often). But this time, it's harder to fix. Governments can only use compulsory licensing to waive patents, but critics say that governments need to be able to waive more IP rights.

Since Covid vaccines are biologics and the first approved mRNA

vaccine, critics argue that governments also need to be able to waive IP rights such as trade secrets and know-hows in order to safely produce the vaccine. In other words, to employ new technologies such as the mRNA vaccine, we need a greater flow of information. They may have a point. Remember how Moderna waived their patent in 2020 but that hasn't spurred much of a production of alternative vaccines?

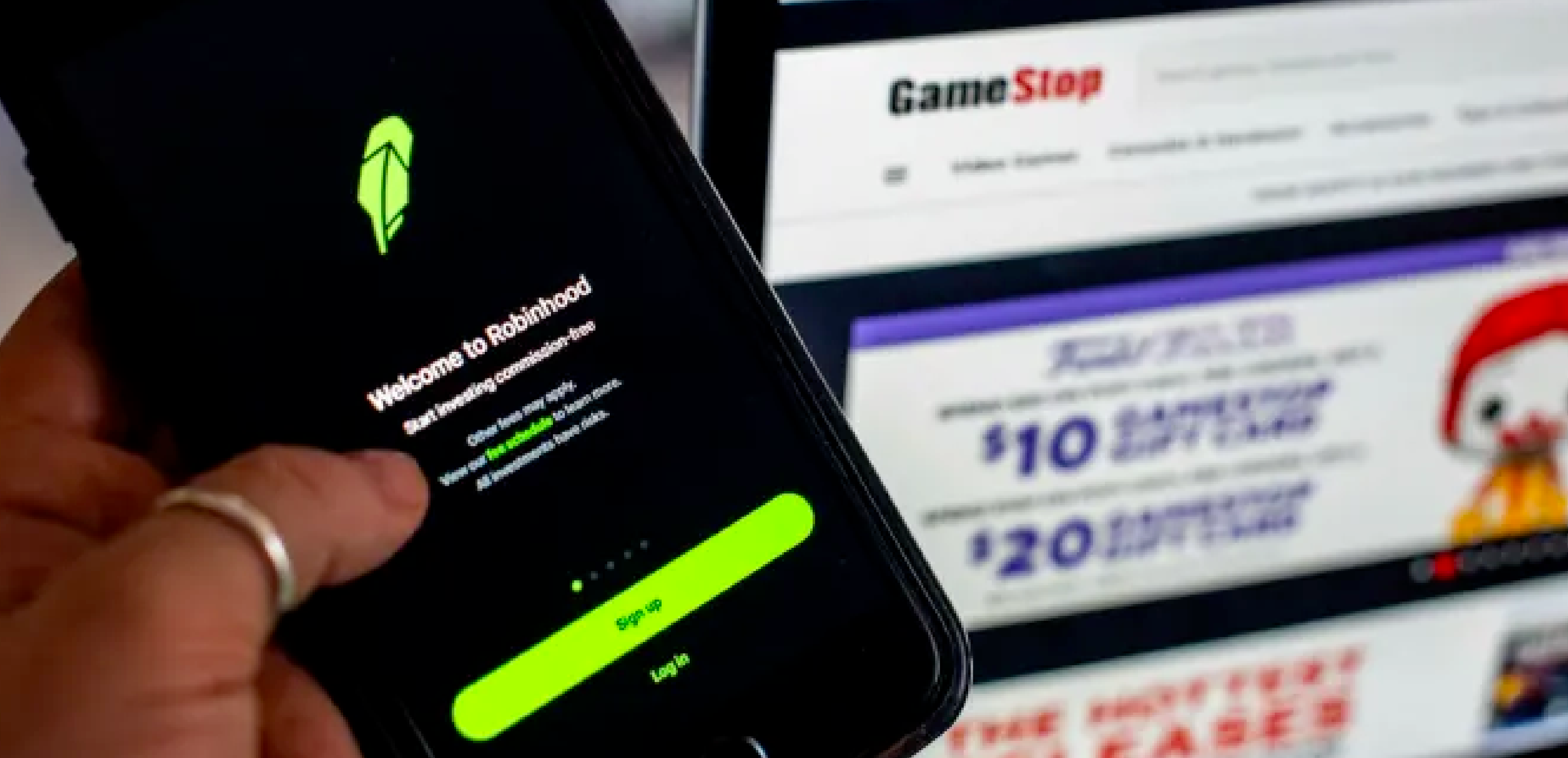
If the critics are right, COVID raises a new question about the limitations of TRIPS: instead of just waiving patents, should governments be able to waive multiple IP rights at once irrespective of the nature of the public emergency? TRIPS doesn't currently permit this.

The answer is really your personal opinion on what the right balance is. Such a law would enable countries to respond faster to public needs. But from the innovator's perspective, the issue lies in the fact that the IP rights waived may be more than what is needed to address the public crisis. For example, a patent waiver is enough to manufacture small-molecule drugs such as HIV antiretrovirals, but not enough for COVID vaccines. In this sense, the balance between IP and public welfare is like an accordion (at least in my understanding): the demand for the number of IP rights waived changes according to the public crisis at hand.

It's possible that we'd be worse off not having enough IP protection during public crises in the short-term and long-term. Everyone could lose. In the short-term, governments need private companies like Pfizer to innovate. When juggling the likes of financial infernos and a crumbling health system, we sure wouldn't expect governments to do the job themselves.

In the long-term, undermining IP rights sends the wrong message to R&D investors. It could disincentivize innovation in future emergencies. For example, we might need technology that can help identify and save victims of natural disasters. In an age where investing in R&D, technology and knowledge creates more economic value than investing in the traditional factors of land, labour and capital, it might pay to take a closer look at how we can have the best of IP and the best of public welfare.

When asked whether she had a "plan," Phoebe Buffay from Friends once famously said she didn't even have a "pla-." Likewise, the COVID IP dilemma doesn't yet have a "huzzah" (whatever that looks like for you). It's currently sitting on a big "huh?" It's difficult to ignore the symptoms of vaccine inequity when only 15% of people in low-income countries have been vaccinated once and developed nations are contemplating a fourth jab. Nevertheless, with the international community set to discuss COVID IP issues at the 12th Ministerial Conference set for June 2022, we might get an answer as to how the world chooses to strike the IP-public welfare balance soon. Watch this space!



MARKETS

The era of the retail investor: amateur traders reshaping the market

BY FAHEEM IBRAHIM

Retail investors have become the newest wave on Wall Street. In the past year, an explosion of online brokerage platforms and the emergence of “meme stocks” on discussion platforms such as Reddit have given rise to a new generation of retail investors. Millions across the globe now have access to apps that allow them to buy stocks as easily as they can order UberEats. The way in which retail investors trade, invest, and share information has shaken up the way we look at markets and the markets themselves. While many may dismiss them as ill-informed or clueless, retail investors now make up a large portion of stock trading volume and can no longer be overlooked.

A retail investor is any non-professional investor who does not do investing as a career. They’re not Wall Street traders working with billion dollar funds, but rather, people who invest in their downtime as a hobby or as a means to increase their personal wealth. These household investors typically make small quantities of trades using online brokerage platforms - the common ones in New Zealand are Sharesies, Hatch and Stake.

According to a survey done by Charles Schwab, 15% of current retail investors in America began investing in 2020. New Zealand wasn’t exempt from the unexpected retail investing frenzy seen in 2020, with the year seeing over 20,000 Kiwis signing up for Hatch, an almost 40% increase to its customer base.

This sudden rise in the number of retail investors, both in New Zealand and across the globe, can be largely attributed to the coronavirus pandemic, which caused a catastrophic and widespread disruption to the global economy. The rapid sell-off in the markets combined with millions of individuals suddenly finding themselves with extra cash and more time on their hands presented the perfect opportunity for new investors to dip their toes into the stock market.

The term “retail” in retail investor

refers to the fact that the purchase and sale of stocks are in relatively small quantities, in comparison to institutional investors who typically trade thousands shares or more at a time. Despite the fact that each trade is small and may seem insignificant, when these trades are repeated in large volumes, they can make a huge difference to the price of a particular stock.

This was seen in full effect in early 2021 when a wave of users from the Reddit forum r/WallStreetBets coordinated a colossal short squeeze in video games retailer Gamestop, motivating each other to keep buying shares and call options. From the beginning of December 2020 to the high on 27 January 2021, the stock surged as much as 2,099%, bringing hedge funds to their knees and redefining conventions about retail investors.

As of today, the r/WallStreetBets subreddit that led the Gamestop charge has 11.9 million members - or "degenerates", as they call themselves - up more than 10 times since before the pandemic began in 2020. The motto of this amateur trading army is YOLO: 'you only live once' - which may not be a motto for saving for retirement.

Many passionate Reddit users have been posting screenshots of their brokerage portfolios, with some boasting astronomical returns of over %1,000 in the matter of days. However, for every lucky user that makes a profit, many do not, with the most extreme risk-takers taking massive losses and sometimes losing their life savings or their house. According to Michael Haupt, one of the former moderators of r/WallStreetBets, 90% of the people on the forum are actually losing money, highlighting the volatility and risk involved in trading solely based on trends and social media hype.

In many ways, investing in high-risk companies can draw similar comparisons to gambling, and the difference isn't always clear cut. Both involve risking money for potential financial gain, and many retail investors are actually gambling without realising it. The question we should ask is how can we balance easy access to investing for ordinary retail investors while ensuring consumer protection to protect them from the risk involved?

Source: Fisher Funds

One method might be to promote low-dollar, low-risk investing from childhood - for example, advocating a slow and steady route to success rather than the "get rich quick" schemes promoted on many discussion forums. Picking a diversified portfolio of investments and investing regular amounts on a monthly basis are tried and tested methods of building wealth. The second answer would be to enforce some degree of regulatory or legal oversight to protect retail investors from higher risk investments and to hold companies offering brokerage services accountable.

Retail investors have begun to realise their group buying power through social media, where the willingness to go against orthodox trading methods isn't just encouraged, it's celebrated. In many ways, the pandemic has given rise to the modern retail investor - tech savvy, armed with unlimited access to information and addicted to social media.

While it is great to see ordinary retail investors taking advantage of the stock market and standing up to hedge funds and large financial corporations, giving people who lack financial knowledge unrestricted access to complex financial products has the potential to harm them as much as it can benefit them.

The MYOB Media Centre

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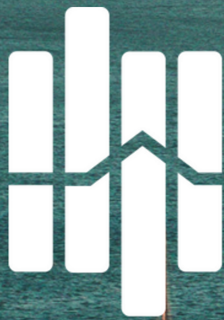
And for our range of articles on start-ups, industry, accountants and bookkeepers visit the MYOB Blog.



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