

Time is money for vintage watch lovers

JAMES GERRARD



With the introduction of smartwatches from tech giants Apple and Samsung in 2014, wearable technology has been growing in popularity with sales growth of 16.7 per cent and global smartwatch sales of \$US9.3 billion (\$12.3bn) this year. But there is still a place for the well-made watch in today's world, something that is of particular relevance for those who may own one as a collectible. If the recent sale of Paul Newman's Rolex is any indicator, the vintage watch market has never been healthier. In 1984, James Cox, who at the time was dating Newman's daughter, was helping Newman repair a cubby house on the Newman family estate at Connecticut. Cox says: "Paul asked me what time it was, so he could set his watch. I replied, 'I don't know — I don't have a watch.' He was clearly surprised. So he said, 'Here, here's a watch. If you wind it, it tells pretty good time' ... I had no idea how significant the watch was."

Fast forward 33 years and after the blessing of the Newman family, Cox recently sold the



The Paul Newman Rolex

Rolex Cosmograph Daytona he had been given for a cool \$US17.75 million, the highest price ever paid for a wristwatch at auction.

The watch had originally been bought by Newman's wife Joanne Woodward from Tiffany & Co in New York, where she had engraved on the back, "Drive carefully", as a reference to Newman's motor racing passion. Ben Zachariah from car and collectibles investment firm Harris & Silverman says: "Some people think Swiss watches are out of vogue and losing value. However, it's quite the opposite. The watch community in Australia has grown hugely in the past five years. They enjoy things that aren't 'plugged in' all the time. It's a romantic thing, and not everyone will understand. Smartwatches aren't any more of a threat than Teslas are to the Jaguar E-Type."

Alan Buchan from Botany in Sydney agrees and is a lifelong watch enthusiast. He says: "Living near the water most of my life has gravitated me towards divers' watches. I have a small collection of mainly Omega watches."

"To most people a watch tells the time, but to someone who appreciates watches, it's almost like a look into your soul. It's a statement of who you are, worn on your wrist."

But what makes a watch a good investment, as well as

something to be enjoyed?

Buchan says: "Most collectors buy and hold watches, enjoying them over a long time and usually only selling to upgrade to something bigger and better. This means that the popular watch makes and models are tightly held and rarely traded." Watches most likely to increase in value are those that have features collectors favour, may come from a limited run or are rarely available for sale.

Zachariah says: "The world of watches is all about nuance. A Rolex 1680 with 'Submariner' written in red on the dial is a \$US20,000 watch, whereas the 1680 with a white 'Submariner' is worth half that. While a Cartier-signed Rolex Submariner is worth \$US200,000. Look for attractiveness, rarity and provenance."

For those new to watch collecting, Buchan says: "You may start with an Omega, then purchase a Rolex, then a Patek Philippe and so on. Climb the ladder. I buy from reputable watch dealers with real business addresses. You pay more than chancing it on eBay, but in the long run it will save you headaches as you'll get warranty plus certification of the authenticity of the watch."

What about fakes?

Buying a fake is a significant risk for even seasoned watch investors. Zachariah says: "The watch market is rife with fakes, but nowadays the quality of these replicas is unbelievable. They're even going to the big efforts ... movements with the correct calibres and producing fake boxes, certificates and receipts."

Luke Star, director of Sydney accounting firm Star & Associates, says: "Watches can be purchased by a self-managed super fund — however, only with strict adherence of the criteria set by the Australian Taxation Office. The watch needs to be purchased as an investment that is anticipated to grow in value, providing a benefit at retirement."

If you want to do some research on watches, Zachariah has some tips. "Just as classic car investors have begun acquiring early Japanese cars, I think we will see collectors look towards interesting vintage Seiko pieces, like the 7A28 RAF and Giugiaro models. Another to watch is the Omega Speedmaster Michael Schumacher special editions that are quite underappreciated, particularly the more attractive 3519.50 and 3506.61 models."

"Lastly, Tudor's rise to prominence in recent years has meant there's more interest in their vintage stuff than ever before, and I believe early Snowflake Submariners will prove to be a good long-term investment."

Although they hold significant personal appeal to many investors, the problem with watches as investments is that they generally do not generate income, have holding costs with insurance and maintenance and can take a long time to appreciate in value. A final problem is that if you buy a watch and it goes up in value, there's a decent chance that you'll never sell it, because you've grown to like it too much.

James Gerrard is the principal and director of Sydney financial planning firm FinancialAdvisor.com.au

More to retirement than money

MY WAY Why retirees' needs extend beyond a financial adviser

GLENDA KORPORAAL



Jon Glass is former chief investment officer at Media Super. Starting life with a PhD in pure mathematics from Cambridge in the Britain, he later worked at AMP and BT. These days he runs 64 PLUS, a retirement coaching company.

Why would a retired person need a coach?

Let me clarify one thing: I am not a financial adviser. I assume that my clients have that aspect of their future in place.

However, what they won't have is a coach who can help them think through the emotional aspects of retirement.

Typically retirement is experienced or, as I maintain, you won't know what it is like until you get there. And this is where the retirement coach can come into play.

This is because you will see very quickly that you had lots of meaning granted you by your workplace — a sense of purpose and mission — but now that you are your own boss you should come to a definition of meaning for yourself.

Here is something very simple (and really everything in this space is "simple" but the point is that you often need help from an external party to grasp what is obvious): how will you fill your days, Monday to Sunday inclusive.

My company offers coaching to people near to, or in, retirement. This retirement coaching service may not seem intuitively obvious at first, but let's begin with the simple part: coaching. Many people will have had this experience at work: one-on-one sessions with a person who helps to bring out their best, both in how



HOLLIE ADAMS

Jon Glass says retirees often need help from an external party to grasp what is obvious

'Markets offer continuous challenges and always will. Were they ever simple? I think not.'

JON GLASS

they think about work and how they behave at work.

Is there a market for retirement coaching in the future?

Retirement coaching will grow as an industry. It hardly exists at the moment so growth will come off a low base, but as clients tell friends who then become clients it will have its own organic growth. I think it will happen quickly.

Perhaps the most important tip for someone who is approaching retirement is that they should have a discussion about it with their family. Here is one simple reason. Assuming you live with

someone, then upon retirement you are likely to be in the house/apartment seven days a week; and not scooting out the front door at dawn to return at dusk. Therefore it's a good idea to start a conversation about common space in the house. I see this as pre-empting a potential argument, which has to be a good thing.

Tell us about your career? How did you get here?

My career has taken me from pure mathematics (I hold a PhD from Cambridge University) to around 35 years in the investment world in various roles as stock-

broker, investment consultant, roles in funds management at BT and AMP, and a chief investment officer position at Media Super.

What investment lessons did you learn along the way?

In all of my roles I have learned many lessons. For example, as an options trader I had to think very short term sometimes minutes, but in superannuation it's more long term, perhaps more than a decade. Come to think of it pure mathematics also employs a long-term perspective, so I guess my career has come back full circle to the long-term.

In my roles managing money I found that there were many higher-level considerations to think about. Many are the ways to construct a portfolio: taking into consideration factors such as whether to engage with active or passive management (or both), the place of illiquid investments such as infrastructure and property and private equity, the use of protection strategies and many more. These topics would often generate serious disagreements and debate; as they should, but one thing was for sure: it was never boring. Markets offer continuous challenges and always will. Were they ever simple? I think not.

What skills do you need as an investor?

My experience has also taught me that professional investors often have excellent analytic skills that focus on relative valuations of assets. There are some incredibly smart people working in the investment industry. But what they are less good at, in general, is the incorporation of some of the critical trends in population growth, technological change and politics that are happening in the world (today especially at what seems like a breakneck pace). That's not a criticism, more an observation that I don't think we have the means at our disposal to knit this fabric together ... yet.

Do you think self-managed super funds are a good idea?

I can see why a self-managed super fund is a good outcome for super with certain investment skills and the necessary self-confidence.

Of course within a self-managed super fund there is a place for an individual to buy and sell shares, but I would add a caveat. It's a good idea to measure one's success at buying and selling Australian shares against the All Ordinaries Index itself. That is what managed and index funds do and it's a fair way to judge your skill. I think it is important to be objective; after all you may be very talented or not, but you should find out.

You know just as investors think about risk, perhaps retirees should think about the emotional risks of retirement.

Let's get real: runaway share prices don't reflect earnings growth

ROGER MONTGOMERY



Investors face a choice today — invest in momentum, acknowledging that low returns are likely but hope for those returns to, at least be smooth, or step aside, admitting that the risk of low returns accompanied by volatility is the most probable outcome.

Of course clients leave funds that underperform. Thinking about my work in my own fund, while over six months we are broadly matching the market's return despite very high levels of cash, over 18 months we are a way off. The result is that investors today are punishing managers who are acting rationally. That in itself is a sign that investors are willing to accept too much risk.

Let's look at the economic backdrop which is currently very supportive for equities.

The conditions the Reserve Bank of Australia reported at the board's most recent meeting revealed accelerating economic growth at above trend rates, improving labour conditions and

low wages. Overseas we see price inflation at just 2.2 per cent in the US and a de-risking of the household debt picture, which is being experienced in many developed economies. Unsurprisingly, equi-

There are more than a dozen companies in the Nasdaq 100 trading at more than 240 times earnings

ty markets from Germany to South Africa have been on a tear. All assets seem to be held up by so-called "goldilocks" conditions, including accelerating economic growth.

In the key US economy we see GDP now growing at an annualised rate of 3 per cent, declining unemployment and an absence of wage inflation thanks to competitive forces, particularly in the re-

tail sector. Back in Australia, notwithstanding double-digit falls in the resale prices of properties in a variety of inner Sydney suburbs (something I have continually warned about for a while), asset prices remain elevated and implied returns have reached historic lows.

But in many cases, investor expectations are simply impossible for companies to meet. By way of example, CSL's current share price — at \$141 on a price earnings multiple of 36 — can only be justified if double-digit earnings growth occurs, without interruption, for the next decade, and then continues to grow at rates above global economic growth rates forever.

That would mean that CSL would eventually be a remarkably powerful global company because it would have taken over Google, Amazon, Apple, Facebook, Exxon Mobil and many other companies as it continued to expand at rates above the rest of the world.

Similar expectations can be said to be supporting a variety of well-known large and mid-cap companies where the price earnings multiple is also at elevated levels.

To put it another way: share prices today are buoyed by exceptional conditions which are expected to translate to even stronger earnings growth than is being achieved currently. And that's on top of the current situation where US corporates are growing earnings at rates above expectations.

But strong earnings growth has existed prior to previous market highs. Earnings were growing strongly prior to the global financial crisis, prior to the tech wreck and prior to the great crash of 1929.

Today again we see share prices running even faster than the earnings growth rates currently being accomplished.

There are now 28 companies in the S&P 500 trading on a multiple

of more than 10 times revenue, and there are more than a dozen companies in the Nasdaq 100 trading at more than 240 times earnings. That's not a typo!

Indeed, it seems that the most popular companies are those that are losing more than a billion dollars per year. Tesla, Uber and Twitter make no money and collectively their market capitalisation is over \$US130 billion (\$170bn).

Perhaps most importantly, it is worth noting that there is no correlation, in any year, between economic growth rates and stock-market returns. Goldilocks conditions in the economy don't necessarily generate goldilocks returns for investors and with implied returns already low, the risk adjusted returns from cash are becoming much more attractive.

Roger Montgomery is founder and chief investment officer of the Montgomery Fund.
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