

The Good Life

Ideas, advice, beliefs and perspectives for the enjoyment and education of our clients and friends

Period ending August 2016

September 2016

What We Are Thinking

Fixed Interest					
Years	1	2	3	10	YTD
One-year	2.4	2.6	2.7	4.6	1.7
Two-year	3.0	3.0	3.1	5.0	2.2
Five-year	6.2	5.3	5.4	6.8	5.1
Long Term					
Australian Shares					
Large	9.0	3.1	6.9	5.7	6.0
Value	11.7	2.3	5.5	5.0	13.7
Small	24.1	5.3	7.1	5.3	13.4
Global Shares					
Large	0.1	12.6	13.5	4.9	1.7
Value	-1.6	8.6	11.0	3.7	2.5
Small	1.3	14.0	14.4	6.6	4.2
Emerging Markets	7.6	2.4	6.8	4.2	14.9
Real Estate	26.0	20.0	19.8	2.5	19.1

Dear Reader,

Welcome to the September edition of *The Good Life*. This month, we include a hard hitting article by Barry Ritholtz in New York giving an honest appraisal of one of the lingering mysteries of the financial crisis: why were there no prosecutions of leading executives? Ritholtz doesn't hold back and is still angry about what happened in the USA. And STILL seems to be happening!

The cynic in me says there is little likelihood of seeing a royal commission into banking here. Too close, too powerful.

In the meantime, with our attention diverted to sport via the Olympics and the footy finals, the markets have kept moving ahead.

Good News

We're continually blown away by what's happening in what we call the EXPONENTIAL WORLD. These advances will make many existing companies obsolete more often than ever before.

This month we look at a targeted cancer treatment, an inspiring mini-festival on the White House lawns, self-driving taxis in Singapore, new data to help prepare for extreme weather conditions in the developing world, making WiFi faster and using smartphones to help people 'see' with the assistance of their phones.

Inflation

Last month we asked you to ponder a question about inflation.

This month we look at how we spend our money and the forthcoming rapid *demonetization* of the cost of living.

Today we'll look at 2 of the 7 broad areas of spending – transport and energy. Watch Out for Big Changes including be able to avoid problems like what happened in South Australia yesterday.

Description of Indexes

One-year FI	DFA Short-Term FI
Two-year FI	DFA Two Yr Div. FI
Five-year FI	DFA Five Yr Div. FI
Long-Term FI	Bloomberg Aus Treas. 10+
Australian Large	DFA Aus Large Co
Australian Value	DFA Aus Value
Australian Small	DFA Aus Small Co
Global Large	DFA Global Large Co
Global Value	DFA Global Value
Global Small	DFA Global Small Co
Emerging Markets	DFA Emerging Markets
Global Real Estate	S&P/ASX 300 REIT Index
	Data presented may be based on a combination of simulated and actual returns.
	Past performance is not indicative of future performance.

Can Senator Warren Jumpstart Financial Crisis Prosecutions?

15 September 2016

From [Barry Ritholtz](#) – Founder and Chief Investment Officer of Ritholtz Wealth Management

Today is the eighth anniversary of the [Lehman Brothers bankruptcy](#). Not enough time has passed yet for me to recall those anxious days without getting angry.

Senator Elizabeth Warren has used the occasion of this anniversary to suggest the next administration should “[investigate and jail](#)” those Wall Street bankers who committed crimes. Although I doubt there will be any [perp walks](#), I do have some ideas about how to proceed.

Before we look into the senator’s suggestion, it is time for an honest appraisal of one of the lingering mysteries of the financial crisis: *Why were there were no prosecutions of major executives?*

It’s a fair question. I believe, as [discussed previously](#), there were 10 areas where fraud and abuse took place. These were the [Mortgage Electronic Registration Systems](#); mortgage pools; securitisation; ‘misplaced’ mortgage notes; force-placed insurance; servicing fees; fake documents; false affidavits, perjury and robo-signing; foreclosure mills; and active military members losing homes while on duty.

I am convinced that these cases were [easy to prosecute](#), that a first-year law student would have a 90% conviction rate, that the [documentary evidence was overwhelming](#), especially of mortgage and foreclosure fraud. As we know, there were no prosecutions of any significance — not at the state level, not at a federal level.

After much research, I have come to believe that at the highest levels of government, the financial industry managed to convince prosecutors that it was [against societal interests](#) to bust bankers. The [revolving door](#) between government and the private sector, between regulators and regulated, figures in this. If you’re a prosecutor, but you might like a big payday from business, do you really want to go hard on the companies that might offer you a job one day?

The bigger problem has been the normalisation of fraud. We found out in 2008 that [Department of Justice prosecutions and Securities and Exchange Commission](#) enforcement actions against Wall Street had fallen 87%. Before you blame the George W. Bush administration, that same [lack of prosecutorial zeal](#) continued under the administration of Barack Obama.

On the anniversary of [Lehman’s collapse](#), it is worth recalling just how blatant some of the misdeeds were, and the surprising lack of prosecution for the bank’s accounting improprieties. Of course, among the leading example was something called [Repo 105](#), which involved moving billions of dollars in liabilities off the firm’s balance sheet near the end of each reporting quarter, then putting them back on the books a few days later. The manoeuvre hid enormous [financial weakness](#). As far as I’m concerned, this was fraud plain and simple, a conclusion supported in the [report](#) by the court-appointed Lehman bankruptcy examiner.

Beyond Lehman Brothers, Warren will find the ripest area for prosecution in improper [foreclosures](#). [Fraud was rampant; every robo-signed document was an act of perjury; every fabricated signature was fraud.](#) I suspect there were thousands of low-level bank employees guilty of these crimes, and they could be pressured into revealing those responsible further up the food chain. I doubt it was the chief executives who ordered these actions, and the ideas certainly didn’t come from the burger flippers recently hired to work in the foreclosure factories. [It was senior bankers who came up with a way to institutionalise perjury.](#)

How and why prosecutors fell down on the job is an area the senator might consider exploring. Maybe take a closer look at the revolving door and issues of regulatory capture. At the very least we still need a dogged probe of the financial crisis like that done by the [Pecora Commission](#) which examined the causes of the 1929 Crash.

This would bring closure and hopefully move us past the alternative of never-ending scandals and fines. And if you think things have changed, just consider the latest scandal: the thousands of Wells Fargo employees who opened [millions of fake accounts](#) in the names of real customers, just to meet unrealistic sales goals. It is more evidence that bad

incentives are rampant in the financial industry and top executives either look the other way or that they don't know what's going on in the companies they run — a sign, if nothing else, that big banks are too big to manage.

Justice has [not yet been served](#). The time left to see it done is almost over, with less than two years remaining on the longest statutes of limitations. I am not holding my breath.

We hope you enjoyed this issue and would like to receive your feedback on articles you would be interested in or ways we can improve our newsletter. We have a lot more information on our website at www.integratedwealthsolutions.com.au where you can register to receive this free monthly newsletter.

John McMorrow

Editor

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That Bit Extra...

More Amazing Research Happenings in the EXPONENTIAL WORLD to Make Our Lives Better

[DeepMind Will Use AI to Streamline Targeted Cancer Treatment](#)



What it is: DeepMind has collaborated with University College Hospital in London on an innovative approach to cancer treatment that aims to streamline the segmentation process for radiotherapy application. In this process, which can take several hours depending on the tumour location, physicians typically analyse 3D scans and draw specifically where to apply radiation to kill a tumour without harming too much healthy tissue. DeepMind plans to streamline this with an algorithm based on the analysis of 700 anonymised scans of previous patients who had head and neck cancers. "Clinicians will remain responsible for deciding radiotherapy treatment plans, but it is hoped that the segmentation process could be reduced from up to 4 hours to around an hour," explained DeepMind in a press release.

Why it's important: By nature, segmentation for head and neck cancers is much more complex and time-consuming than for cancers found elsewhere. Often the tumour sits right next to major nerve centres and other critical anatomical features. By streamlining and automating this process with an algorithm, physicians can treat patients faster, easier and cheaper than ever before. Hopefully we'll soon see algorithms like this applied to other cancers.

[Join the Discussion](#)

Spotted by Marissa Brassfield

[White House Will Host a 'South by South Lawn' Fest in October](#)



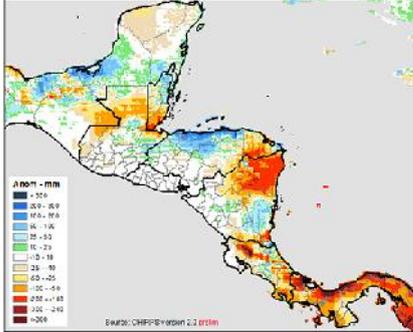
What it is: On October 3rd, the Obama's will host the first *South by South Lawn* mini-festival, inspired by their talk at this year's SXSW. The event will stay true to the original festival's components – interactive media and music – and will include panels and booths on new technology and innovations and an emphasis on how to make positive change stick.

Why it's important: The 2 themes most prominent in the Obamas' day-long festival are change and inspiration, concepts we'll need to create a world of abundance. *South by South Lawn* also demonstrates how government and world leaders can play a meaningful role in supporting innovation, creativity and entrepreneurship.

[Join the Discussion](#)

Spotted by Marissa Brassfield

[This New Data Set is Poised to Revolutionise Climate Adaptation](#)



What it is: A new scientific data set called CHIRPS (Climate Hazards Group InfraRed Precipitation with Station) is helping the world's poorest people proactively prepare for extreme weather conditions. CHIRPS is an early warning system backed by data from decades of rainfall averages. It alerts development agencies and NGOs of extreme weather patterns such as drought, floods and storms.

Why it's important: If aid organisations can predict when drought is about to happen, they can proactively deliver food and other provisions, potentially even before the event happens. Best of all, the data is freely available, courtesy of grant funding which means that even bootstrapped aid agencies can access it.

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Spotted by Aryadeep S. Acharya

[World's First Self-Driving Taxis Debut in Singapore](#)



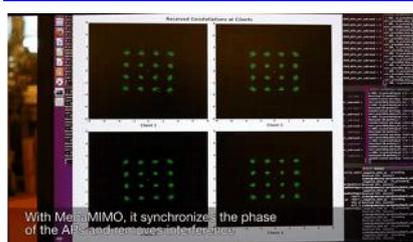
What it is: Singapore officially hosted the first self-driving, small-scale taxi fleet thanks to a company called nuTonomy. The free trial means that nuTonomy beat Uber's plan to debut its self-drive taxis in Pittsburgh next month. NuTonomy intends to grow its mini fleet of 6 into a fully functioning, autonomous fleet by 2018 with the hope that urban cities around the world will adopt its model and ultimately help decongest overcrowded urban roads.

Why it's important: One of Peter's primary reasons for predicting a massive decline in auto sales is due to the impact of the 'autonomous Uber' and similar 'car-as-a-service' operations. NuTonomy's self-driving taxi fleet is just a taste of what we can expect from auto and tech companies aiming to solve congested metropolitan roads and help people move seamlessly from point A to point B.

[Join the Discussion](#)

Spotted by Marissa Brassfield

[MIT Researchers Solve the Spectrum Crunch to Make Wi-Fi 10x Faster](#)



What it is: Researchers at MIT's Computer Science and Artificial Intelligence Laboratory have created a new WiFi system that solves a critical issue – spectrum crunch. This phenomenon occurs when WiFi signals interfere with each other in a restricted environment, for example, you're at a football stadium and your smartphone data speed is unusably slow. At the heart of the MegaMIMO system (Multiple Input, Multiple Output) is an algorithm that helps routers to transmit data on the same wireless spectrum with minimal signal interference. The system performs up to 10 times better than traditional WiFi setups in high-traffic conditions.

Why it's important: McKinsey and other research firms predict we'll have between 20 and 30 billion internet-connected devices by 2020. That's fewer than 4 years from now. To make these connected devices usable, we'll also need to upgrade our Internet infrastructure, perhaps using algorithms like this one.

[Join the Discussion](#)

[Smartphones Are Leading The Global Charge Against Blindness](#)



What it is: Smartphone apps are making strides to help improve the ease and reduce the cost for people to get better vision. With advanced technology systems and smartphone add-ons, a few key companies are helping people to 'see' with the assistance of their phones. [This Fast Company article features the top players and their innovations.](#)

Why it's important: Smartphones are demonetising and democratising vision care to the 2.5 billion people in the world with poor vision and no access to vision correction. As Peter pointed out in a [previous blog](#), "As more of these exponential developments continue, we will begin to unlock unfathomably productive capabilities and begin to understand how to solve the world's most challenging problems."

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Spotted by Marissa Brassfield

A TIMELINE OF EARTH'S AVERAGE TEMPERATURE SINCE THE LAST ICE AGE GLACIATION

Just in case you missed, here's a quick revision of what happened over the last 22,000 years – <http://xkcd.com/1732/>

Inflation Part 2

People are concerned about how artificial intelligence (AI) and robotics are taking jobs and destroying livelihoods... reducing our earning capacity and subsequently destroying the economy. In our home it's my wife who worries and the boys get a good laugh about dad's latest talk about drones delivering food or smartphone apps to teach children just about anything.

But what people aren't talking about, and what's getting Peter Diamandis's attention is a forthcoming rapid *demonetisation* of the cost of living.

Meaning ... it's getting cheaper and cheaper to meet our basic needs.

In this part, Peter explores how people spend their money now and how "technological socialism" (i.e. having our lives taken care of by technology) can demonetize living.

How We Spend Our Money Today

Spending habits around the world tell a pretty consistent story – we tend to spend money on many of the same basic products and services.

Take a look at how consumers spent their money in 3 large economies: the US, China and India.

In the US, in 2011 33% of the average American's income was spent on housing, followed by 16% spent on transportation, 12% spent on food, 6% on healthcare and 5% on entertainment.

In other words, more than 75% of Americans' expenditures come from housing, transportation, food, personal insurance and health.

In China, a recent Goldman Sachs Investment Research report details a similar breakdown -- food, home, mobility and wellbeing make up the majority of expenditure.

In India, with a population of over 1.3 billion people (2016), expenditures on food, transportation and miscellaneous goods and services are most prominent. Housing and healthcare represent a smaller portion of expenditures.

These differences likely represent cultural diversity in each of the 3 very different countries but overall, we see that the majority of expenditures are in these **top 7 categories**:

- **Transportation**
- **Food**
- **Healthcare**
- **Housing**
- **Energy**
- **Education**
- **Entertainment.**

Now imagine what would happen if the cost of these items plummeted. Today, we look at just 2 – transport and energy.

(1) Transportation:

The automotive market is being demonetised by startups such as Uber. But this is just the beginning.

When Uber rolls out *fully autonomous services*, your cost of transportation will plummet.

Think about all of the related costs that disappear: auto insurance, auto repairs, parking, fuel, parking tickets, etc. Your overall cost of getting around will be 5 to 10 times cheaper compared with car ownership.

This is the future of 'car as a service.'

Ultimately, the poorest people on Earth will be chauffeured around.

Please read interesting article.

<https://www.theguardian.com/cities/2016/sep/26/sidewalk-labs-google-mass-sharing-driverless-cars-reshape-suburbs>

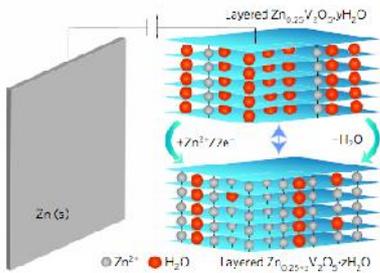
(5) Energy:

Five thousand times more energy hits the surface of the Earth from the sun in an hour than all of humanity uses in a year. Solar is abundant worldwide. Better yet, many of the poorest countries on Earth are the sunniest.



Today, the cost of solar has dropped to ~\$0.03 kWh. The cost of solar will continue to demonetise through further material science advances such as perovskite that increase efficiencies.

[A Cheap, Long-Lasting, Sustainable Battery for Grid Energy Storage](#)



What it is: Chemists at the University of Waterloo have developed a safe, efficient battery for grid energy storage. The water-based zinc-ion battery uses non-toxic, non-flammable and inexpensive materials, making it half the price of today's lithium-ion batteries. The new battery works for more than 1000 cycles.

Why it's important: As Kurzweil AI reports, this battery could help communities ease the transition from grid-based energy to renewable energy production and storage. Compared to lithium-ion batteries, zinc-ion batteries have a higher energy density, making them ideal for grid-scale applications.

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Spotted by Aryadeep S. Acharya

[Costa Rica Has Gone 76 Straight Days Using 100% Renewable Electricity](#)



What it is: Costa Rica has been operating on 100% renewable power for over the past 2 months, mostly hydropower and geothermal energy. Unlike wind and solar, hydropower can run at all times, unless the source's output is impacted by weather. Recent heavy rains enabled 4 of the country's dams to perform above usual capacity, making it possible to serve the country's energy needs without diesel generators.

Why it's important: Although Costa Rica's strategy is a major step in the right direction, it's not one we can exactly duplicate around the world as most countries lack the geography and climate necessary to build and sustain hydroelectric dams. That said, Costa Rica's government figured out how to leverage its unique location and natural resources to generate the most sustainable energy possible. That's a technique other regions can emulate, even if they must get more creative to achieve a similar result.

[Join the Discussion](#) Spotted by Prithvi Raj