

FINANCIAL REVIEW

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HD **Australia's most optimistic bear**
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Ashok Jacob, one of Australia's top investment advisers, is caught in a conundrum.

Describing himself as a "fully invested bear", he believes global financial markets are caught in a huge asset bubble. But he acknowledges professional investors such as he can't afford to sit on the sidelines while prices soar.

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"It is one of the oddest periods in financial history," he told The Australian Financial Review in an interview. "You have to be invested but you have to be bearish with a longer-term approach."

The director of Ellerston Capital is concerned the global economy is heading for "back-breaking hardship" if inflation rises sharply. It could also trigger a sharp upturn in interest rates, which would likely hit the price of shares, **bonds** and property. He thinks the price falls could be 20 to 30 per cent.

But he added there was no sign of that happening in the near term and is confident about the broader market.

Australia is also relatively insulated from global instability and would be seen as a haven as long as **China's** economy remains stable, he said.

Ellerston, which focuses on shares, was established as a subsidiary of the Packer family's holding **company** in 2004. Today it invests \$3 **billion** on behalf of clients around the world.

"You may get a little bit of a recession and I can't see how you can get much earnings growth, but Australia doesn't have the big bogeyman or the big bear around the next corner that Western countries do. It is not as exposed to this run-up in equities around the world," he said. Printing money has led to 'bizarre' scenario

Mr Jacob is a long-time adviser to the Packer family, sits on the Pratt family advisory board and last week agreed to sell part of Ellerston's **stake** in takeover target Goodman Fielder.

He said the current conditions have their roots in the abandonment of the **gold** standard in the 1960s, which allowed countries to print their own money. The world's top five Western central banks have multiplied their monetary base by nine times since the financial crisis in 2007-08. There is little incentive for politicians to take liquidity out and trigger a recession as their goal is to survive the next election, he said.

"Now you have a scenario where every politician has a get out of jail free card. You don't have to make anyone withstand any financial hardship because you have central banks printing money to get demand stimulation," he said. "That is creating this monumental asset bubble. The bizarre thing about it is that it is nowhere near the end. While you don't have inflation and so much excess liquidity in the system, there is no limit to how high markets can go.

"Every respected economic commentator says there is too much debt and no one is taking the pain. But the reality is that while you have excess liquidity and there is no inflation, asset prices have to keep going up.

"Is there a point where it comes crashing down? That point can only be the arrival of inflation and you can't see that anywhere."

Mr Jacob's comments highlight the catch-22 for many investors seeking to capitalise on the growth in prices without being caught in a crash if inflation rises. The impact on global markets as the US Federal Reserve looks at winding back its quantitative easing program is driving uncertainty.

But the groundwork is now being laid by central bankers for quantitative easing in Europe, while Japan is taking similar measures to prop up its economy despite criticism from the United States. Abbott 'doing the right thing'

Mr Jacob said governments should prepare for a downturn by repairing their balance sheets, noting the Abbott government was moving in the right direction by seeking to return the budget to surplus.

"There is no question he is doing the right thing. When the time comes and interest rates go up, the hardship caused by it will be diabolical," Mr Jacob said.

"The way you deal with it is by getting your debt down before the hardship comes and the hardship will be reduced. What he is doing is very atypical for a politician. You can argue about his motives and say all kinds of things but he is undergoing balance sheet repair."

Mr Jacob is well known for his former role as a long-time adviser to James and Kerry Packer. He still sits on the board of Packer's Crown Resorts and works closely with the Pratt family, who own private paper and packaging interests. The Packer-controlled Consolidated Press Holdings (CPH) sold down its 100 per cent **stake** in Ellerston in 2011 and retains a passive shareholding. It was in the news twice last week after raising its **stake** in GrainCorp and agreeing to sell part of its **stake** in Goodman Fielder to woo Wilmar International. Hard assets key

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