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HD **For investing and building wealth the true trends are outside the box. David...**

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For investing and building wealth the true trends are outside the box. David Potts reveals the growth areas of the future.

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S hare traders say the trend is their friend, but that means following the herd even when it's heading the wrong way. For investing and building wealth the true trends are outside the box. They'llultimately triumph over whatever one-off influences might push a stock one way or another. Even then, identifying and profiting from them can be two different things. Take the unmistakable decline of Australian manufacturing. You'd want to avoid whatever industries are still standing which make something, right? Not necessarily. "Manufacturing is going backwards yet of the 100 most profitable Australian companies in 2013, 21 were in manufacturing - that's one in five!" leading trend spotter and economic forecaster Phil Ruthven, chairman of IBISworld, says. "So you can have the worst growth and be the most profitable. Clever manufacturers are doing just fine," he adds. Retailers are another case in point. "There's no real revenue growth in department stores yet they're returning 17 per cent on shareholder funds. DJs and Myer are going online and if they make the transition they might be fairly good buys," Ruthven says.

Globalisation

"Globalisation still dominates all else. The way to chase it is with multinational companies such as Caterpillar and Procter & Gamble which are world players," says Shane Oliver, head of investment strategy and chief economist, AMP Capital. Some global giants "are bigger than many countries", says Rob Tucker, portfolio manager at HG Hiscock & **Company**'s SGH20managed fund. Luckily there are lots of global equities managed funds on offer, which do the research for you. Some even follow their own interpretations of the big global trends. But globalisation doesn't stop with the sharemarket and industry. Property is also becoming a global commodity. Naturally, fund managers have invented all sorts of global property funds as well. A list of global **equity** and property funds is at morningstar.com.au.

Energy revolution

Emerging markets, especially in Asia, have for some time been the ant's pants for fundmanagers. But some are having second thoughts because of the unexpected shale **oil** and gas revolution galvanising the US economy. That the US would be a manufacturing hub again seemed implausible even threeyears ago. But as Oliver says, "with itstechnology it's throwing off its industrial malaise". Along with a revitalised Europe and Japan, the US "will dominate global

equities", Oliver says. Ultra-cheap **energy** is making the US so competitive that manufacturers are re-locating from **China** and India. General Motors, for one, is planning to shift its IT arm back to Detroit from India. That's nothing. **Chinese** companies such as Lenovo (of IBM Thinkpad fame) are opening plants in the US. The Economist reports Taiwan's electronic components manufacturer Foxconn will also start manufacturing in the US. The petrochemical and fertiliser - typified by BHP Billiton's move into potash - sectors thrive on lower **energy** prices. At the same time, cheap **energy** in the US could undermine what will soon be our most valuable export, LNG. If nothing else it should drive down the real price of **energy**, including **oil**. Incidentally, the International **Energy** Agency forecasts the US will overtake Saudi Arabia as the biggest producer by 2020. Who would have guessed? Even so, some Australian companies stand to gain directly from the **energy** revolution. A small Perth-based listed **company**, Eden **Energy**, for example, has developed **energy** fuel kits for generators which can switch from up to 80 per cent diesel to natural gas and are being exported to US shale gas producers. Australian Ethical's international equities fund specialises in what it calls "smart energy", such as solar, wind and geothermal stocks as well as smart meters and recycling. It also targets manufacturers of energy efficient products, IT and IT services, telcos, logistics and transport. According to the fund's investment officer, David Macri, apart from investing in clean energy "which will benefit at the expense of dirty fossil fuels ... is the (issue of) energy efficiency". Curiously, there's a downward trend in electricity consumption in Australia and other developed economies. "We've already seen reduced energy demand across all developed markets," Macri says.

Ageing

Demographics is one of the most powerful economic trends. The proportion of the world's population over 60 will double by 2050, according to the United Nations. Sure, this will lead to more demand for medical and hospital services, but less obvious is the impact of increased leisure time. "Less will be spent on new housing and furnishings, and more on personal services, holidays, entertainment and community services," Oliver says. Aged-care facilities, hospitals, pathology, pharmaceuticals, orthopaedics and medical devices such as hearing aids are areas that will benefit from an older and longer living population. That's why biotech stocks have taken up where junior miners left off as playthings for speculators. Instead of a drilling result, think

clinical trials. Still, stocks in the areas of diagnostics or medical aids tend to be safer. Australian Unity has funds specialising in healthcare and retirement properties. Financial advice and the leisure industry are other big winners from an ageing population.

Food and water

The CSIRO forecasts food prices will rise in real terms thanks to what it tactfully calls climate "variability", rising third-world incomes and less land devoted to farming as more is diverted into biofuel production and urbanisation. The UN's Food and Agricultural Organisation forecasts food production must rise 70 per cent by 2050 to meet global demand even as arable farmland is shrinking. And right in our backyard, Asia's middle class will increase sixfold by 2030 and they'll want more protein and higher quality food. "New Zealand is doing well with dairy prices. It's why the NZ dollar has been going higher," Oliver says. Australia has two listed dairy companies: Warrnambool Cheese & Butter, 89 per cent owned by Saputo, and Bega Cheese. Short of trying your hand on the land yourself, other listed agribusinesses include Australian Agricultural Company, the world's biggest wagyu beef producer, and Graincorp, which processes and markets wheat, barley and canola crops. The venerable Elders and Ruralco provide farm services. For international stocks think Archer Daniels Midland (which tried to take over Graincorp), Fonterra, Monsanto, and Unilever. Oh, and what do livestock and crops need? Fertiliser - that'd be Incitec Pivot, Ridley and Nufarm and heaps of listed phosphate miners. And water - CSIRO tips Australian water usage to rise 42 per cent by 2026. Listed Tandou grows cotton and invests in water rights. An unlisted fund specialising in water entitlements is Blue Sky Water Fund. Its manager, the listed Blue Sky Alternative Investments, also runs the Water Utilities Australia Fund. Or there's the listed Rural Funds Group

which is similar to a real estate investment trust except it leases land, livestock and water rights to farmers. For something different there's Phoslock Water Solutions' technology that removes algae from water.

Big data

You can never know too much and if you didthere'd be the problem of where to store it all. There were 1.8 zetabytes of data created in 2011 alone and this is expected to double each year, UTS associate professor Paul Kennedy told Platypus Asset Management's 2014 symposium. Apparently that's like watching 200 billion movies in one sitting for 47 million years. No wonder interest in data storage and socialmedia are taking off. Cloud computing is the equivalent of wardrobe space for business by storing data but is only half the story. You have to go through it and find what's useful. Google, anyone? Anything to do with storage, distribution, management or analysis of data is worth considering. "Expect exponential growth in the next seven to 10 years. Winners are stocks like NEXTDC," Tucker says. Telstra, Optus, Amcom Telecommunications, iiNet and TPG are cloud providers while Xero provides online software services to small business.

China connection

Although the mining boom is over - or at least the easy investing part rather than digging - China will continue to loom just aslarge in Australia's economy but in different ways. Chinese incomes are rising 13 per cent a year. "In a recent survey of high-net-worth individuals in **China**, 60 per cent with over $1 **million** to invest plan to emigrate because of social security and pollution issues in the next five years," Tucker says. This has to be good for long-term property prices. **China**'s already the world's second-biggest economy and among the fastest growing. "**Chinese** tourists are coming in droves though they aren't big spenders," Ruthvensays. Think Sydney Airport and the hospitality industry for starters for tapping into the **Chinese** tourism boom.

Lower growth for longer

Outside **China**, growth in the major economies - as well as Australia - has been lacklustre despite unprecedented help from central banks around the world. Only Australia has resisted the money-printing presses but has joined the global club of historically low interest rates. Yet inflation remains dangerously low in

the US and Japan and certainly is in no risk of taking off anywhere there's a functioning government. "Low inflation is alive and well. Deflation is still a risk," Oliver says. "There is over-investment in **China** which is putting downward pressure on prices. As well there's a lot of spare capacity in the world that wasn't there decades ago." Most developed countries are carrying unsustainable debt loads by governments - or households in Australia's case - which suggests a prolonged period of higher- than-normal savings as "deleveraging" as economists call it takes place. The US has started to rein in its extra money printing and at some point, expected to be well into next year at the earliest, it will lift rates. Just one thing: Ruthven says recessions run in eight-year cycles so the next one is due in 2018. You have been warned.

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