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Financial

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ADVICE

Extra Mile

Welcome to the Spring 2024 edition of Extra Mile

Looking back at world events over the last quarter, it seems that history is being made with accelerating vigour.

Consider what unfolded over the last few months: one US president quit the election race, while two assassination attempts took place on another. Just one week later, we were reminded of the fragility of the world's online connectivity as terminals and systems worldwide froze (the 'Crowdstrike' event). The Japanese Nikkei share market index fell 12.4% in one day - the

worst decline for the index since 1987. We can also throw Middle East tensions into the mix, which are continuing to escalate.

The good news is that as we go to print, the US share market is trading at all time highs, the Federal Reserve having cut interest rates, ending one of the most rapid hiking cycles in memory.

Considering the unpredictability of both local and global events, we feel that our role as impartial and reasoned financial advisers is as important now more than ever. Milestone's range of globally-facing investment portfolios provide clients with a high degree of diversification to ride out whatever the future holds.

We trust this quarterly provides you with fresh thoughts and

knowledge. As always, we encourage you to reach out to your adviser if you wish to discuss any of the subjects covered within.

Editor
Richard Maloy



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Tennis Lessons: Federer and win rates

The below article was provided by Insync fund managers in Australia. They provide some intriguing parallels between the worlds of both sports and investing:



To succeed long term do you need to succeed in the short term?

Intuitively the answer might seem to be 'yes' - at least for most of the time. Certainly, our industry [investment management] is constantly sweating the nearer-term return numbers in so many ways and so the arithmetic must surely support this.

Let's look at this in terms of a parody investors might be familiar with - professional tennis. Recently the gentlemanly and humble Rodger Federer stated at this year's Commencement Speech for Dartmouth College the following....

"In tennis, perfection is impossible... In the 1,526 singles matches I played in my career, I won almost 80% of those matches... Now, I have a question for all of you... what percentage of the POINTS do you think I won in those matches?"

Only 54%.

In other words, even top-ranked tennis players win barely more than half of the points they play. When you lose every second point, on average, you learn not to dwell on every shot. You teach yourself

to think: OK, I double-faulted. It's only a point. OK, I came to the net, and I got passed again. It's only a point."

Federer has won an astounding 80% of his matches yet produced only 54% of the points!

To dominate the final outcomes over decades - becoming one of the most successful ever, he didn't need to also win most of the points along the way. All he needed were slight advantages over the short term (games) to compound his overall series scores and world rankings over the long run.

And so it is with investing. Wise fund managers know this but are often pressured into earning and defending the near impossible consistency in the short run. A recipe for certain failure.

Interestingly a 'batting average' of between 50%-60% for a managed fund will likely produce a similar outcome to Federer. No, not something like 80% that one might first think. This 50% batting average produces the kind of over-market outcomes in the long term.

We know that equity price movement in the near term

is essentially a toss-up but it's almost certainly assured to deliver an almost sure thing, longer term. The S&P 500 for instance, for roughly the last 100 years has been flat or up for only around 54% of the time. Federer in action.

Yes, the average negative day is actually a little worse than the average up day, but because the median and peak stats are greater than the down stats, and there are always many more ups than downs, the result is better than one might intuitively expect.

The S&P 500 produced an average daily return of just 3 bps, yet its compounding outcome has been breathtaking. This excludes dividends and equates to 39,000% since 1927. With dividends counted and reinvested this expands to 1,300,000%.

Whilst most investors will be investing for much less, say 20-40 years, the outcomes are still profound. As you can see below from 3 years out the success of positive outcomes jumps to 90% and more as you look each year further out.

Daily, Monthly, and by # of years (Through 20 Years)

Since 1950.



Table courtesy of Ritholtz Wealth Management USA

Its not about beating an index.

One just needs to be constantly in sight of it, and to have as the benchmark for each being the run-rate and longevity of its intended life for what they each individually need. It doesn't matter what the Jone's (the index) is posting – it's what each client needs to achieve for their lives and the risks they're willing to take for it.

Sweating the points and

missed tiebreakers etc will lead to the wrong focus, poor decisions (in terms of too much switching and timing). No investor has ever got close to 70-80% consistently so be wary of the ones that are as they can't sustain it.

Federer didn't give up or change his game dramatically; nor view a lost point, tiebreaker or set as a failure- if he had he wouldn't have 20 grand slam titles to his name. Similarly,

placing too much weight on short-term outcomes in stock markets, will make it almost impossible to be a successful investor.

Minor advantages that compound over longer time horizons can do wonders. For example, reducing the volatility on clients drawing an income in retirement and perhaps increasing it for those saving fixed amounts on a regular basis. Another is to reduce longevity risk by reducing 'sequencing risk' at the outset of establishing a portfolio.

I'll leave it here with another worthy sporting quote:

"I've missed more than 9000 shots in my career. I've lost almost 300 games. 26 times, I've been trusted to take the game winning shot and missed. I've failed over and over and over again in my life. And that is why I succeed." - Michael Jordan.

Company spotlight: Nvidia

Marvel in the astonishing growth of this relatively unknown mega-cap company. While this article was published in mid-June, the broad facts hold true. This company is a component of various growth-focused models offered by Milestone.

Nvidia overtakes Microsoft as the world's most valuable company

Nvidia (NVDA), a chipmaker which 10 years ago was worth just \$11 billion, is now the world's largest company by market capitalisation - more than Microsoft, Apple... and everyone else.

So, NVDA is now ranked #1 on market cap, but what about other metrics?

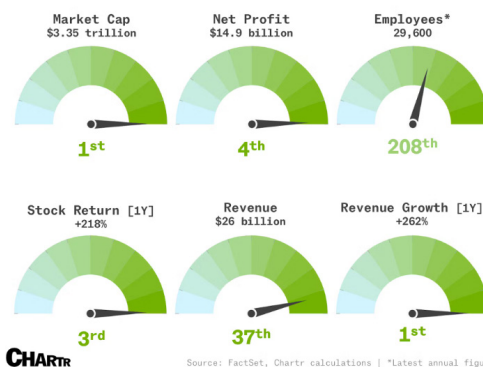
Although the stock's surge has been remarkable, there is financial momentum to support its valuation (whether it's enough, however, is a question for analysts). Indeed, although Nvidia is only the 37th largest S&P 500 company by revenue, it's actually the 4th most profitable in the entire index, pipped only by the rivals it has recently passed in market cap (Microsoft, Apple, Alphabet).

But, most importantly, Nvidia represents that

which investors can never get enough of: growth. In the most recent quarter reported, the average S&P 500 company posted 5% revenue growth year-on-year. Nvidia notched 262%, the most of any company in America's flagship index.

Nvidia: The Tale Of The Tape

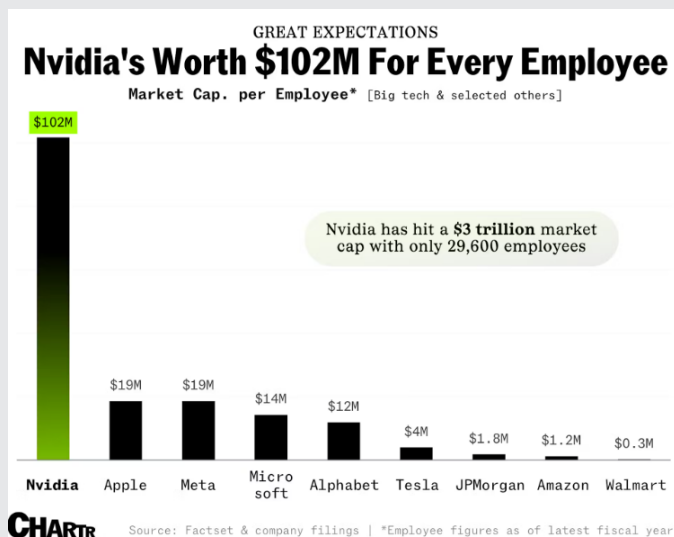
Rank Within S&P 500, NVDA [Latest quarter as of 06/19/24 unless stated]



The market now values Nvidia at \$100M+ per employee

There are a lot of ways to value a company: price-to-earnings multiples, discounted cash flow analysis, or EV-to-EBITDA multiples are all favourites of equity analysts... though each is often more of an art than a science. One really simple fundamental metric is: how much value is being ascribed for every person that it employs? For Nvidia, after this latest run-up took it north of the \$3T milestone, the company is being valued at more than \$100M for each of its 29,600 employees (per its filing that counted up to the end of Jan 2024).

That's more than 5x any of its big tech peers, and hundreds of times higher than more labour-intensive companies like Walmart and Amazon. It is worth noting that Nvidia has very likely done some hiring since the end of January — I think the company might be in growth mode — but even if the HR department has been working non-stop, Nvidia will still be a major outlier on this simple measure.



We are running out of ways to describe Nvidia's recent run... but a nine-figure valuation per employee is a new one.

Sources: Kernel Wealth, David Crowther at Sherwood news

New Zealand Tax – a summary of recent changes

Following the recent change of government, we are beginning to see promised tax changes flow through. It is estimated that over 80% of New Zealander's are set to benefit to a varying degree.

The summary below is a checklist of some of the more impactful changes. The following comments and data are general in nature and the impacts of the tax changes discussed will depend on your personal circumstances. We strongly recommend readers seek advice from a suitably qualified tax professional.

Changes to New Zealand's personal Resident Withholding Tax (RWT) thresholds

From 31 July 2024, the below RWT changes have been in place:

RWT Rate	Prior threshold (\$)	New threshold (\$)
10.5%	0 – 14,000	0 – 15,600
17.5%	14,001 – 48,000	16,601 – 53,500
30%	48,001 – 70,000	53,501 – 78,100
33%	70,001 – 180,000	78,101 – 180,000
39%	180,001	180,001

Trust Tax Rate

For the 2024–25 income year onwards, the Trust tax rate increased from 33% to 39%. Trusts with more than \$10,000 trustee income (after deductible expenses) are now subject to the 39% trustee tax rate on all of their trustee income.

Parliament's Finance and Expenditure Committee did accept the Government's advice that a \$10,000 trustee income de minimis (up from \$0) be introduced. This means that where a Trust earns \$10,000 or less (net of expenses and beneficiary distributions), the 33% rate remains in place.

If you have a trust, it's worth speaking with your tax or legal advisers as there are a number of factors to consider to ensure your trust assets and income are optimised. For example, holding investments in a PIE fund will limit the tax paid on investments held in a trust to 28%. Trusts may also be able to distribute trust income to beneficiaries at their marginal tax rate.

Bright-Line Test and Change to Calculation Period

Changes to the residential property Brightline test - from 1 July 2024 the sale of a residential property, owned for more than two years, will no longer attract income tax on any capital gain. The

'start date' is generally the date the property's title was transferred to the buyer unless subject to an exception.

This replaced the prior rule whereby the sale of a residential property, if owned for less than ten years, was subject to capital gains tax.

Main Home excluded from Brightline test - the main home exclusion will remain in place (with certain criteria) as well as exceptions for separation/relationship property transfers, some transfers to trusts, and receiving a property via an estate.

This reduction in the Brightline test down to two years is intended to stimulate residential property investment and availability. Sellers who held rental properties now have a reduced timeframe where capital gain taxes may apply.

Residential Rental Property - Interest Deductions

From 1 April 2024, the ability to claim interest deductions will be phased back in. Residential property investors can now claim 80% of the

interest incurred for funds borrowed, with interest deductions to 100% from 1 April 2025.

Date Interest Incurred	% of interest that can be claimed
1 April 2024 – 31 March 2025	80%
1 April 2025 onwards	100%

Commercial Building Depreciation

For the 2024-2025 income year, the ability to claim tax depreciation deductions for industrial and commercial buildings has been removed. While these buildings will still be considered "depreciable property", the annual depreciation rate will be set at 0%, meaning no deduction is available.

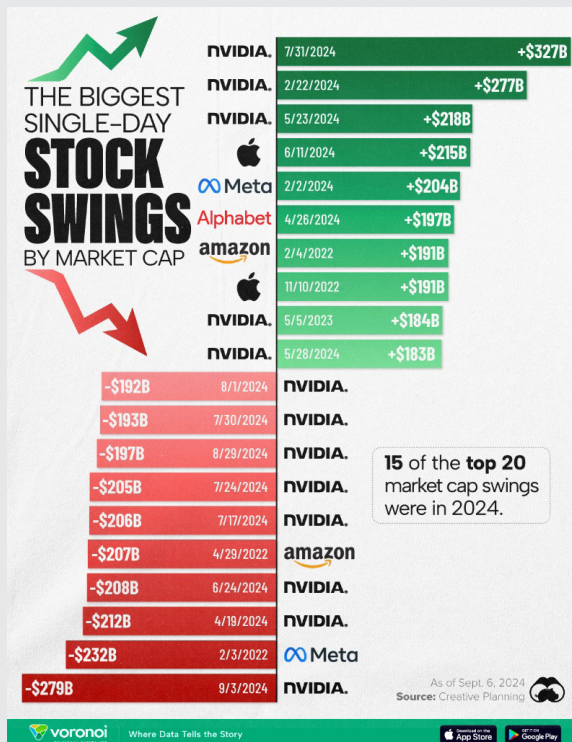
Summary

There are bound to be some tax sweeteners for most of our readers. The above list of changes is not exhaustive and we urge you to seek professional advice on any tax matters.

Charts of Note

Size matters

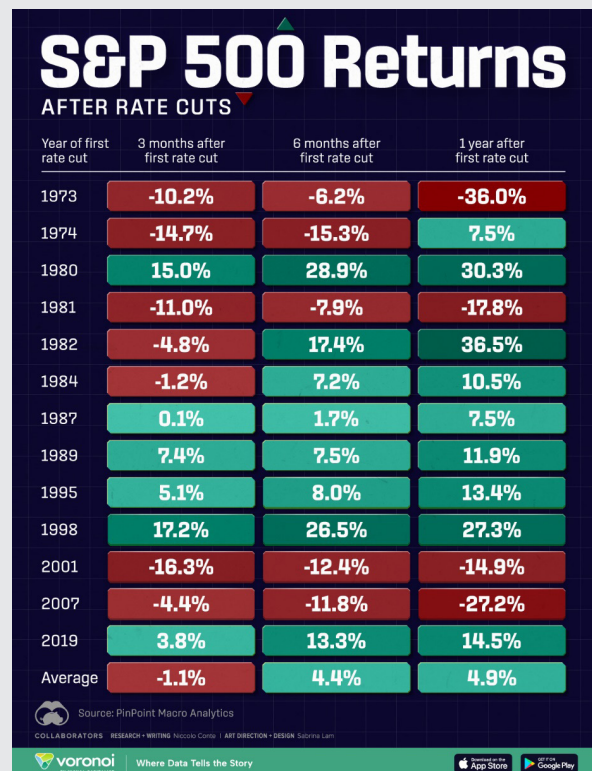
Companies causing biggest swings in the markets this year.



Source: visualcapitalist.com

The first cut is the deepest

Historic US share market reaction to first rate cut.



Source: visualcapitalist.com

What was it about 2007? The Era of Amplification



Grant Pearson at Insync fund managers in Australia takes us back to the year 2007, arguing that in terms of technological progress, this may have been the most important year since 1454. Back then, the Gutenberg printing press was first commercialised, revolutionising the printing process.

The below [abridged] article is a relatively long read, but provides some compelling thoughts about our place in history:

Have we missed the most significant year technologically since Gutenberg's printing press commercialisation back in 1454? Investors should be aware of 2007's impact if they are to be successful in the years ahead. How did governments, politicians, scientists, historians, bankers, the media, and universities miss what was perhaps the biggest inflection point in technology since the commercial printing press 550 years earlier?

But they did.....

In decades to come people may well call 2007 the start of the 'Era of Amplification'. And it's shaping our society today. Whilst each information technology invention is big in themselves, they're profoundly more powerful when viewed as a collective. A convergence of inventions began to shape how we live, work, think, do, behave and view our world in profound ways. Let's take a

brief stroll across just some of the technological creations from around 2007 that set both today's world and the decades ahead.

The world missed some important new things. In 2007 Steve Jobs (Apple) stood on a stage with the first **Smart Phone** that not only gave us the internet in our hands on the street, but also converged 8 communication gadgets in one portable device. The camera, phone, email, internet, messaging, photo album, note pad and typewriter. The first iPhone was as powerful, and infinitely more connected, than the computing power of the entire Apollo space program. Its power has expanded many times since.

Also in 2007 **facebook** opened to anyone anywhere that had an email address. **Google** bought a video platform called **YouTube**, vastly scaling up its reach and content like facebook. And if that wasn't enough, Google launched the operating system that almost all mobile devices use – **Android**. Jeff Bezos released the first eBook – the **Kindle**. Three conference-goer friends that couldn't find accommodation in San Francisco created **Airbnb** after utilising air mattresses on a lounge room floor. In 2007 the internet hit an important threshold exceeding **1 billion** users. **Twitter** in 2007 also went global.

Remember **IBMs Watson** computer? In 2007 it became the first cognitive computer to

beat human cognitive thought demonstrated on a game show called Jeopardy, answering a pun in under 2.5 seconds. Six years earlier mapping the **human Genome** cost around \$100m USD. Its cost fell off a cliff in 2007 to just \$1200.

In 2007, **Intel** began manufacturing silicon chips - without silicon. **Moore's law** states that the number of transistors that can be placed on a silicon chip doubles every 2 years. In 1958 the first integrated circuit had less than 10 (comparable in count to Phillips TV sets in the 60's). By 1970 it was over 1000. Last year it topped 2.6 trillion transistors in the palm of a hand. That's 2,600,000,000,000 and its still growing!

We've crossed a line. Scaling and amplification of converging technologies, along with the speed of change, interconnectedness and processing power, has for the first-time outstripped society's ability to absorb and adapt to its colossal impacts. This is fast becoming one of society's top challenges alongside our climate. One tiny example is the process of gaining a patent. This often takes in excess of 4 years, but technology development now is leapfrogging itself in under 2 years making the patent useless before coming into effect.

Up until 2007, society over hundreds of years across various organisations, laws, norms,

processes, values and structures had both the time and the awareness to ingest, respond, debate and adapt to such big leaps forward but not anymore.

Why didn't we pick up on it?

Because 2008 came along and with that.....

The **GFC** or Global Financial Crisis was the biggest recession since the Great Depression! The threat of falling into the abyss loomed large, diverting everyone's attention. It demanded focus, energy and activities of so many into ensuring we didn't fall. It could not have happened at a worse time however, as we missed something far bigger, far more important and indefinitely longer

lasting - this massive super shift upwards in human technological capability.

Many old investment norms and laws are being pushed aside or are being challenged by all this. Today's big-name companies are under threat, and many will soon disappear. In their place new ones are already evolving. What's changed is the time it now takes for this replacement, and that small companies because of the **Era of Amplification** can now challenge and even replace the dominant players. New ways to look at portfolios and processes of investing will be crucial to your long-term success.

Would you be a VW for 5 cents

if it could do 850,000 km per litre?

Moore's Law states that computing processing power will double every 2 years (equalling 48% p.a. growth). Consider this applying to a 1971 VW Beetle. Today the humble Beetle would travel at over 482,000 km per hour, with 850,000 km to the litre and it would cost around 5 cents. This is scale of computing development since the Apollo space program. With the advent of quantum computing (likely to be commercially operating by the end of the decade), this rate of growth will accelerate far beyond Moore's Law in a single leap - just imagine its impact.

Leaving a Legacy: Julian Robertson

This edition, we thought we would provide our readers with a profile of a generous US investor with strong links to New Zealand – the late Julian Robertson (1932-2022).



Mr Robertson was a US hedge fund pioneer who later in life turned his attention towards philanthropic efforts.

Following a visit to New Zealand in 1978, he felt a genuine affinity for our country. In a stroke of national luck, Mr Robertson decided to focus much of his charitable efforts towards our country.

Investment Legacy

Mr Robertson founded New York hedge fund Tiger Management in 1980. Under his stewardship, his investment firm grew their investment book from US\$8 million to US\$22 billion in 1998. Over this period, his fund realised an average annual return of 32% per year.

Tiger's investment strategy was to identify and invest into companies which appeared cheap by the numbers. The aim was to purchase shares in 'undervalued' companies and ride the positive repricing of the company. The fund was also able to 'short sell' shares whereby companies with poor prospects were identified, and returns subsequently made from share

price declines.

Philanthropic Legacy

Later in life, Mr Robertson (and wife Josie) used his wealth for positive causes. Within New Zealand, he developed several golf courses and luxury lodges including Kauri Cliffs in Northland, The Farm at Cape Kidnappers Hawkes Bay, and Matakauri Lodge in Queenstown.

The Cape Kidnappers golf course is a direct result of Mr Robertson's vision. In 2004, local landowners Andy and Liz Lowe collaborated with Mr Robertson to establish and co-fund the Cape Sanctuary

predator-free zone adjacent to the Golf Course. Over the ensuing years, habitat has been restored with endangered species re-introduced.

In 2009, he donated 15 pieces of artwork from his personal collection to the Auckland Art Gallery. Pieces included paintings by Matisse and Picasso, with an estimated value of around \$200+ million as at 2017.

Robertson and his wife Josie also established the Aotearoa Foundation. This organisation provides support for an array of non-profit organisations with a

focus on long-term, high impact grants in three principal areas – education, environment and medical research.

Mr Robertson passed away in 2022 but leaves an ongoing legacy. He gave away an estimated \$2 billion during his lifetime.

His example is a case study of wealth being used for societal good.

sources: robertsonfoundation.org, aotearoafoundation.org, rnz.co.nz

Travel Tips

Emerging from a chilly winter, some of us are in the fortunate position of being able to consider a holiday overseas. Below we provide an [abridged] version of a recent publication by New Zealand fund manager Kernel Wealth who offer some simple reminders to avoid travelling money mistakes:

5 Money Mistakes to Avoid While Travelling Overseas

Be ready to pack your bags, because it looks like Kiwis are ready to hit the skies again! According to Intrepid Travel, 85% of us were planning to travel in 2023. We won't let anything - not even the pandemic or the cost of living - stand in our way.

But before you jet off on your international adventure, make sure you avoid having to pay extra with our list of 5 travelling money mistakes.

1. Paying high foreign exchange fees

Exchanging currency is a must-do when travelling overseas, but you don't want to pay more than you must. Many banks and traditional money transfer services charge a margin on the exchange rate, also known as a markup.



This markup can significantly increase the cost of your transfer. Instead of using a bank or traditional money transfer service, consider using a service like Wise (previously known as TransferWise). Compared to traditional methods, using a provider such as Wise can

be a more cost-effective and convenient way to transfer money internationally.

A few reasons why a provider such as Wise may be a good option to consider include low fees, competitive exchange rates, convenience and security (Wise, for example, is regulated by

financial authorities in multiple countries and uses bank-level security measures to protect its users' personal and financial information).

2. Forgetting to switch mobile plan

If you're planning to travel internationally, making sure your mobile phone plan will work for your destination is important. Depending on your plan, you may be charged ridiculous fees for making calls, sending texts, or using data abroad.

A couple of options to consider:

Option 1: switch to a travel-friendly phone plan, such as an international roaming plan or a pay-as-you-go plan. However, these costs could add up and be more expensive than option 2.

Option 2: purchase a new SIM card in your destination country, which can be a cheaper way to stay connected while travelling. Just be sure to research your options and compare prices to find the best deal, plus make sure you're not signing up for a plan that will continue after your trip.

3. Not getting travel insurance

Travel insurance is a type of insurance that covers unexpected events and financial losses that can occur while travelling. It's designed to protect you

against various risks, including trip cancellations, medical emergencies, lost or stolen luggage and other unexpected events...

Travel insurance can also provide medical coverage if you get sick or injured while travelling, which can be especially important if you are travelling abroad and are not covered by your home country's healthcare system. Remember ACC doesn't exist in other countries!

4. Avoiding third parties to organise your travel

When buying plane tickets, it can be tempting to use a third-party website or service to find the best deal. While these websites can be a convenient way to compare prices and book flights, they can also come with hidden fees and other drawbacks. For example, less flexibility with any changes needed.

To avoid potential issues, booking your flights or hotels directly can often be the best option. This can help ensure that your bookings are legitimate and that you don't end up incurring additional unexpected costs.

Be sure to do your research on the airline's policies such as flight cancellations, delays, and lost baggage, as you wouldn't want to end up needing to incur extra

costs if anything changes!

5. Not doing your research on the country

Before you travel, it's important to do your research on the country you are visiting. This includes familiarising yourself with the local customs, laws, visa requirements, and culture and learning about any potential safety concerns. By doing your research in advance, you can avoid making cultural mistakes and help ensure that you have a safe and enjoyable trip.

It's also a good idea to research the cost of living in your destination, as this can help you budget for your trip and avoid overspending. Some things to consider include the cost of accommodation, food, transportation, and any activities or attractions you plan to visit.

Don't let these 5 financial mistakes ruin your trip

By avoiding the 5 money mistakes above, you can make the most of your trip while not having to worry about unexpected costs. Remember to plan, compare prices, and protect yourself with insurance and other precautions to ensure that your trip goes smoothly.

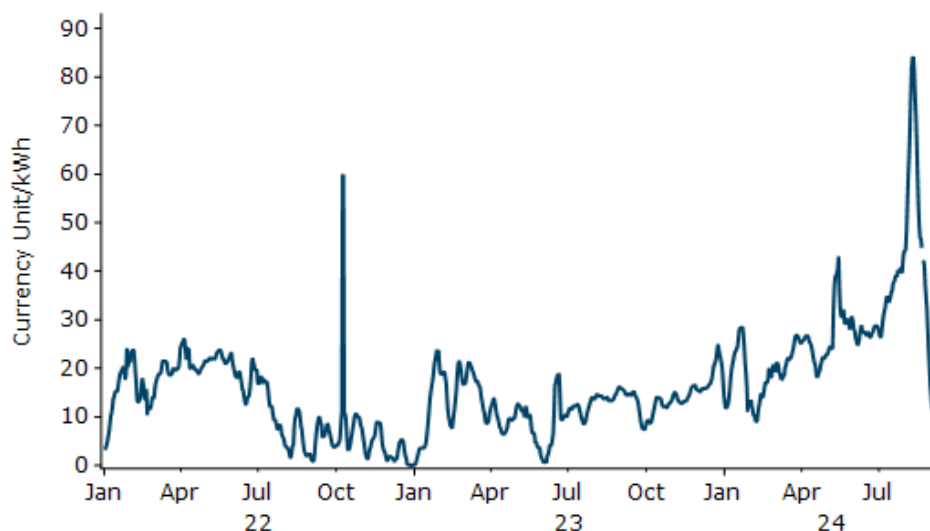
Bon Voyage!



Still shocking

Electricity prices topical, retreating from highs, but highly volatile:

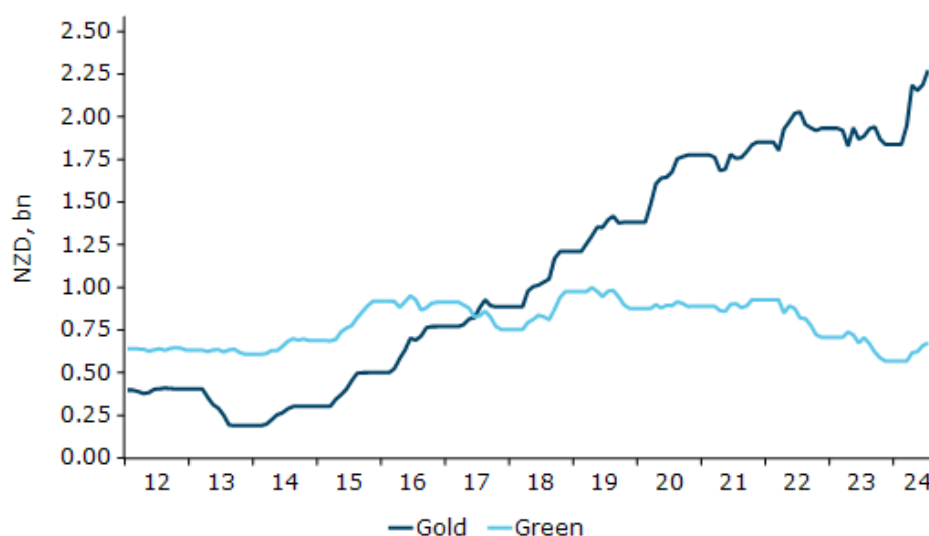
NZ wholesale spot electricity price



That's gold

New Zealand's gold kiwifruit exports continue to be a great news story:

Value of gold and green kiwifruit exports



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