The Eternal Australian Investment Question:- Property, Shares or Cash? When To Tilt & How Commodities Underpin All

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Asset Allocation

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The almost cliché and perennial Australian investment question has been, is now the time to tilt towards domestic property, shares or cash? Fortunately, there has been a recurrent cipher that has helped answer that very Australian specific conundrum.

Australia was the only Allied Dominion that fought in World War One that subsequently saw negligible to negative economic growth from 1918's armistice until the beginning of hostilities in the Pacific with the Japanese attack on Pearl Harbour at the end of 1941. (It did not help that despite the fact that Australia had contributed and lost more men per capita fighting in Europe and Turkey than any other combatant, following the war, the British forgave every other Allies' national war-debts other than those due by the Commonwealth of Australia – begging the question, why did Australia fight a European conflict to begin with?)

Remembering that a cliché is truth's most loyal friend, the answer to what underpinned Australia's pre World War One (1851–1913) and post Second World War (1946–1960's) successes can be found in the clichés, "***the lucky country***" and Australia rode "***on the sheep's back***".

The commodities boon of the Australian gold rushes – which began when prospector Edward Hargraves (this author's Great^4 Uncle) discovered gold near Orange (NSW) in 1851 – stoked the reputation of Australia being the ***lucky country***, further crowned by the 1861 accomplishments of the Peppin families' successful rearing of a uniquely Australian Merino stud at Wanganella station, north of Deniliquin, an entrepreneurial town bordering New South Wales and Victoria. (As many as seventy percent of Merinos in Australia today are said to be directly descended from Wanganella station sheep)

Ten years after the first gold rush began in NSW, Australia's first stock exchange was mutualised in Melbourne, which had quickly become the gold prospecting epicentre.

From 1851 with a State population of 80,000, Victoria's population swelled to 540,000 by 1861 and the Melbourne Stock Exchange (now amalgamated with other State exchanges to form the Australian Stock Exchange, through incorporation under legislation of the Australian Parliament on, 1 April 1987), went on to list current day darlings such as Broken Hill Proprietary Company Limited (BHP) in 1885, alongside the Sydney Stock Exchange listing AGL in 1871, which was then Sydney's first and largest gas street light provider.

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Forgiving the fact that common listing rules and any identifiable and uniform publication of share price composite indices were unavailable until 1938, the pre-War 1851 until 1913 era saw stronger investment returns from large capitalisation listed companies (shares) than individual residential real estate dwellings (property) in all cases other than those whom owned properties in the mining epicentres of Bendigo, Ballarat, Monaro and Bathurst.

For these two commodity-driven eras, gold bullion and wool industries afforded Australia one of the highest living standards in the world, allowing the newly nationalised economy the opportunity to accrue wealth from these primary exports.

As an export-led newly nationalised economy, the Australian Pound (cash) actually strengthened from its inception in 1910 until the midpoint of the Great War (World War One) but notably, median Sydney, Newcastle, Melbourne and Adelaide residential house prices only began to accrete and continue to sustainably rise themselves from this midpoint (1916) onwards up and until the sudden onslaught of the Crash of 1929 (The ***Great Depression***).

By the 1950's, minerals, coking plus thermal coal and iron ore replaced wool as the basis of Australia's economic future and wool farmers struggled to sell their product on world markets.

This, unsurprisingly, coincided with the "*Growth Recession*" of 1956 until 1958 and the "***Holt Jolt***" beginning in April 1961, when then, Federal Treasurer, Harold Holt opened up the Australian economy to the world by ending import licensing.

With the economy booming and wool export prices high, Holt's decision to accept the Treasury guidance of ending import controls was motivated by the idea to ease inflationary pressure by loosening the aggregate supply, acknowledging that import licensing was economically inefficient and probably unpopular since it restricted living standards and consumer choice. With Australia under a fixed exchange rate, a balance of payments crisis soon unfolded with pressure on the exchange rate and it was also unsurprising that Sir Robert Menzies, who had recently established and enacted the supposed-independent Reserve Bank of Australia, '**instructed**' the Reserve Bank to cut lending and consecutively, '**advise**' the Treasury to free up capital controls on the then increasingly important Australian Pound-Japanese Yen (A£/¥) exchange regime.

In 1955, Australia had begun exporting coking coal to Japan and by 1967 Japan had surpassed Britain as Australia's primary anthracite market. The confluence of these events led to Australia abandoning the Australian Pound in 1966, replacing it with today's decimalised Australian Dollar (cash).

In absence of a more detailed multivariate analysis, what can clearly be identified is that when the Australian economy enjoys an aggregate upswing of primary exports led by hard commodities – such as gold bullion – better investment outcomes domestically have historically been found through shares, whereas during times of soft commodity betterment, superior investment outcomes have been seen in domestic real estate (property) markets.

Whether led by **steel**, **copper**, **iron ores**, **lithium**, **hydrogen** or **agribusinesses** exports, appreciating the intricate relationship Australia enjoys across soft and hard commodity corollaries helps the Australian investor decide how best to tilt towards domestic property, shares or cash, now and into the foreseeable beyond. ■

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