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AI: The only thing certain is that nothing is certain

INSIDE

BY MARK HAWTIN

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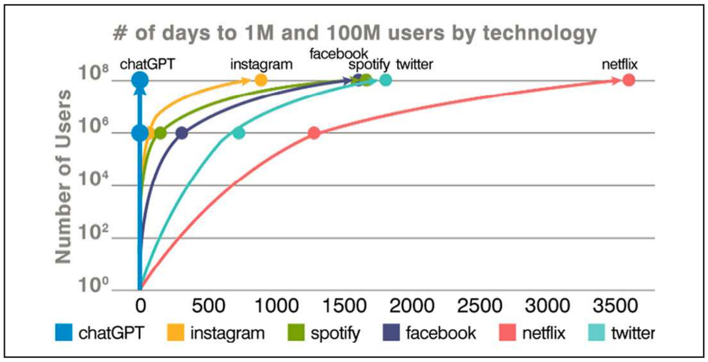
The Salesforce Tower in San Francisco stands fifty-nine floors tall with 1.35 million square feet of office space (the below image is created entirely using AI from Bing on Chat GPT). It was completed in 2018 at a cost of USD 1.1 billion as a very visual crowning moment in the rise to power of Software as a Service (SaaS) and its godfather, Marc Benioff. The building epitomised the third generational wave of technology disruption that saw the smartphone as catalyst to putting computers in the hands of billions of users. The network effect derived from that under Metcalfe's Law created some of the world's biggest companies in just over a decade - Amazon, Google, and Meta. Apple and Microsoft were also huge beneficiaries although they were companies from the second generational wave (client server - the desk top era).

Yet today, one-third of the Salesforce Tower stands idle, the equivalent of 18.4 million square feet of office space. One could be forgiven for thinking that the technology wave had come to an abrupt end, yet nothing could be further from the truth. The launch of Chat GPT in November 2022 has unleashed what we term Digital 4.0 - the fourth disruptive wave - more far reaching than any of its predecessors. We believe this wave will profoundly change the foundations of every business without the need for the physical opulence that went with its predecessor. AI, together with masses of data, faster networks and the connectivity of everything, promises to accelerate the pace of disruptive change at exponential rates. With each new technology comes greater and greater speed and adoption. Chat GPT shows just that (see Figure 1).

Source: Bing, ChatGPT

Figure 1: Number of days to 1 million and 100 million users by technology



Source: Kyle Hailey

Following quickly on the heels of the Chat GPT launch were the Q1 2023 (April end) results from Nvidia. These were so spectacular that they have fired the starting gun in AI investing. A USD 4 billion increase in Q2 guidance for revenues taking the total from an expected USD 7 billion to USD 11 billion marks perhaps the biggest upgrade to a company operating at scale in the history of technology. It shows clearly that we are far from the end of disruption and that in spite of the creation of so many huge new companies, the world continues to see innovation orders of magnitude higher at every turn. The reason for the Nvidia raise was demand for large language models (LLM) the core of AI applications. Nvidia's newest chipsets can cost upwards of USD 30,000 each with a large scale LLM costing as much as USD 300 million. With most of the world's companies realising the need for AI, demand is just at the beginning. We were onsite at the Nvidia offices in California the morning after this huge earnings beat and for Nvidia, Chat GPT was "the iPhone moment for Digital 4.0".

Hype versus reality

Technology titans have been quick to make the scale of change clear. Sundar Pichai, CEO of Alphabet, said, "I've always thought of AI as the most profound technology humanity is working on - more profound than fire or electricity or anything we've done in the past". In trying to understand the scale of change and the way in which it will impact our lives, it is important to consider how we must adapt. In education, for example, leaders have been quick to condemn Chat GPT as an unacceptable tool that students can use 'maliciously' to pass exams with flying colours. It is true that it is exceptional in this field - the most recent release Chat GPT4 passed the US bar exams with 98% but we believe this misses the point. Bill Gates frames it perfectly in stating that "education needs to shift towards enhancing individual perceptions and creativity rather than fact learning; that Chat GPT passes exams is more a reflection on exams than information on Chat GPT". The point is that this is here, it is now and it is not going away. We need to adapt - in the corporate world, the winners and losers will be defined by that adaption and it will need to be at speed. Hence the scramble for AI capability and the huge investment in infrastructure - Nvidia GPU chipsets.

There has clearly been hype surrounding the rapid changes since the launch of Chat GPT but the impacts are becoming very real. We see this breaking into two primary buckets - the enablers who manufacture the chipsets and the surrounding infrastructure to create these LLMs and the end use cases. The former is clear; it is here and it is happening at pace. The latter is less clear and definitely prone to hype and misinformation. To give one example, companies like Palantir and C3.ai have seen their share prices rocket

> **Rarely in the corporate world do we see industry leaders calling for regulation, but AI has become one area where the warning of potentially dire consequences ring loud. As recently as this month, more than 350 AI professionals - including Sam Altman and the "godfathers" of AI - signed a one-sentence statement published by the Centre for AI Safety that said, "Mitigating the risk of extinction from AI should be a global priority alongside other societal-scale risks such as pandemics and nuclear war."**

recently. Year-to-date, Palantir is up 129% and C3.ai is up a staggering 292% (to end May 2023). Both companies have an AI angle but more as consultants rather than scalable solutions businesses; just like the addition of the .com letters to companies back in the late 1990s, the appearance of AI in the company name seems to ensure instant share price action!

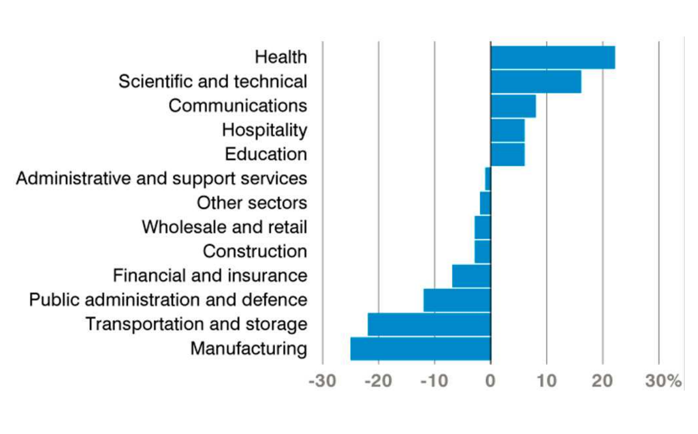
What will we do with it?

End use cases for AI will extend across all industries but some will become apparent quicker than others. We believe that some of the early use cases will be in the following areas:

- **Healthcare** – drug discovery (AI can already discover possible drug compounds faster than humans)
- **Chatbots** – customer support will become significantly more dynamic and effective
- **Copywriting** – articles are already being written using LLMs that are more than a match for human writing at a fraction of the time and cost
- **Advertising** – targeted advertising will become vastly more efficient with AI
- **Coding** – one of the interesting areas of discovery is that LLMs can write great code and de-bug existing code very well
- **Manufacturing** – the automation of manufacture though AI led robotics will be substantial

All of the above areas of disruption are labour intensive and we believe there will be significant displacement of labour while new jobs will be created in multiple industries at the same time. This has been highlighted in a number of pieces of research. Goldman Sachs estimates 300 million jobs will be lost to AI by 2030 while McKinsey has a bear case number as high as 800 million. We can see many examples of increased productivity through the use of AI assistants. Think of a team of solicitors working on conveyancing, for example. The work of 10 lawyers and paralegals could probably be easily condensed to five lawyers and five digital assistants. This type of change can extend across many industries.

Figure 2: How AI could change the job market



Source: PwC

The impacts will not only be felt in cost savings and margin enhancement. McKinsey again cites a potential USD 13 trillion benefit to global GDP by 2030 with sectors such as manufacturing, healthcare and retail set to be most affected. This equates to a 1.2% annualised effect.

Regulation

Rarely in the corporate world do we see industry leaders calling for regulation, but AI has become one area where the warning of potentially dire consequences ring loud. As recently as this month, more than 350 AI professionals - including Sam Altman and the "godfathers" of AI - signed a one-sentence statement published by the Centre for AI Safety that said, "Mitigating the risk of extinction from AI should be a global priority alongside other societal-scale risks such as pandemics and nuclear war."

AI regulation is a complex and evolving topic. There is no one-size-fits-all approach, as the best approach will vary depending on the specific context. However, there are a number of common principles that are emerging as

> **Governments seem to understand the need, but it is unclear how this will be achieved or who will have the skillsets to manage it effectively. At the same time, companies are playing a proactive role. Nvidia has launched NeMo Guardrails, their software product for developing trustworthy LLM conversational systems.**

important for AI regulation. These include transparency, accountability, fairness and safety. Leading AI developers are increasingly calling for regulation of AI. For example, Elon Musk has said that "AI is potentially more dangerous than nuclear weapons" and that "we need to be very careful about how we develop AI." Yann LeCun, the chief AI scientist at Facebook, has said that "we need to regulate AI before it's too late."

Governments seem to understand the need, but it is unclear how this will be achieved or who will have the skillsets to manage it effectively. At the same time, companies are playing a proactive role. Nvidia has launched NeMo Guardrails, their software product for developing trustworthy LLM conversational systems.

Summary

AI is here and its very real. It needs significant inputs and support from a proliferation of data, fast network speeds and connectivity. This will support the build out of the ecosystem from chipsets to networking products, connected devices and storage. There are multiple ways to gain access to these factors aside from the markets most obvious desire to own Nvidia. End use cases will be many, but the winners and losers list is not easy to define at present. Investment banks have been quick to assemble AI short baskets, but we often find names we think of as AI winners in those baskets. Time will tell but it does seem clear that software will continue to win in this environment. A recent interview with Cathie Wood at ARK suggested that for every USD 1 of hardware that Nvidia sells, there will be USD 8 spent on software.

Figure 3: Global Artificial Intelligence (AI) Software Market

Source: Verified Market Research

The magnitude of this spend may be open to question but the direction of travel is not. We have been talking about the Digital 4.0 super wave for some time - while fermenting in the background for some time, we believe that the launch of Chat GPT is the iPhone moment for Digital 4.0. Investment and opportunity is set to explode. So what of San Francisco office space? Unless it can be converted into the offices of AI - data centres - it is likely to be a permanent legacy to the last wave.

Mark Hawtin is the investment director responsible for running global long only and long/short funds investing in the disruptive growth & technology sectors. Prior to joining CAM in 2008, Mark held positions with Marshall Wace Asset Management and Enskilda Securities.

The seeds of a downturn, and opportunity

BY CLAY SMOLINSKI
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There is a long-held pattern in markets:

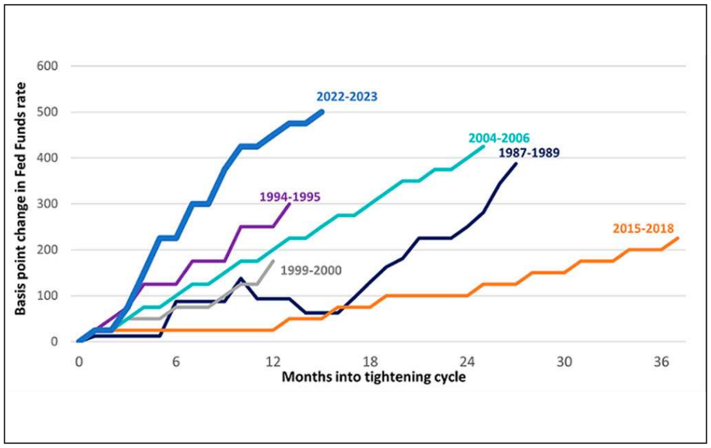
1. Consumers and businesses become accustomed to prevailing interest rate conditions.
2. The situation changes, and then rates rise rapidly.
3. Interest rates hit a level that becomes restrictive, high enough to slow activity. Two signals that become restrictive are:
   a. Activity in interest-rate-sensitive industries, such as housing and used car sales, contracts.
   b. The yield curve (the difference between 10-year and six-month interest rates) turns negative.
4. From that point, when interest rates become restrictive, 12-18 months later, activity starts to contract, company profits start falling, layoffs rise, and stock prices tend to fall.
5. Historically, it has been worthwhile paying attention to when this interest rate pattern started unfolding - and we are seeing this same pattern unfolding today.

Reasons for caution

For over a decade, we have lived in a world of **record-low interest rates**, which we all became very accustomed to.

The factor that changed was inflation. Central banks globally have responded by increasing interest rates very quickly to combat rising **inflation**. This has been the sharpest increase in US interest rates in 40 years, as illustrated in Fig. 1.

Fig. 1: Rates have gone up very fast, but the impact lag is 12-18 months

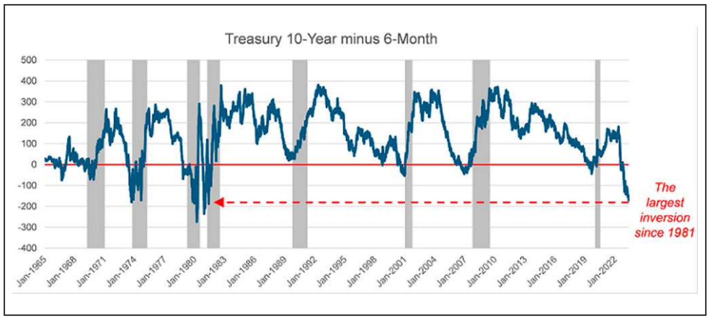


Source: Evercore ISI Research, as at 12 May 2023.

We are getting the signal that **rates are now firmly in restrictive territory**. We can see that in the deeply inverted yield curve – it is now the most inverted yield curve since the early 1980s, after inverting in August 2022. At the same time, we started to see a recession in housing, and used car prices started to fall.

The number of leading economic indicators flashing recession continues to build. The Conference Board Leading Economic Indicator (LEI), a composite measure that

Fig. 2: US yield curve is the most deeply inverted since the early 1980s



Source: FactSet Research Systems, as at 15 May 2023.
Note: Grey-shaded areas indicate GDP-based recession.

combines a number of leading indicators such as manufacturing orders, freight volumes, business confidence, and bank lending, is signalling a recession over the next 12 months. We are also seeing a significant number of layoffs in the tech sector, problems in commercial property with office vacancy rates rising to all-time highs (with WFH a contributing factor) and asset values falling, and four major banks collapsing.

Fig. 3: The US LEI signals a recession over the next 12 months

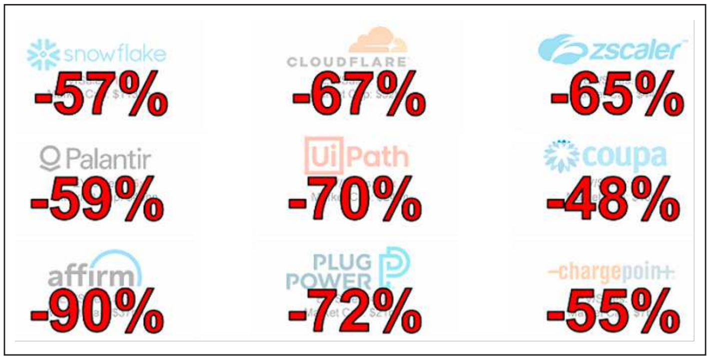
Source: The Conference Board, as at 11 May 2023.

So, this long-held historical pattern is playing out in front of our eyes. Our simple response is that it calls for caution.

We also need to keep in mind that one of the all-time great 'super bubbles' in the last 100 years has now burst. Favourite stocks of the day, many of which were loss-making businesses trading on astronomical valuations in 2021, have seen their prices plummet. The post-COVID bubble of 2020-2021 was truly enormous, and we will most likely look back on that period like we do with the 2000 tech bubble. It has all the same ingredients.

Jeremy Grantham, the co-founder of GMO, has specialised in studying the great super bubbles of history. His work showed that the super bubbles were in a class of their own and given the sheer excess required to generate the bubble, the hangovers tended to be very different from the usual stock market downturn.

Fig. 4: The air pressure test: Valuation of software as a service (SaaS)/disruptors



Source: FactSet Research Systems, as at 12 December 2021.
EV: Enterprise Value. Sales data is the latest completed period figure.

In 2021, we had some wild excesses: zero interest rates, record stimulus and incredible speculation in things like cryptocurrencies. There have been seven super bubbles in the last 100 years (1929, 1972, 1989, 2000, 2007, 2008, 2021).

Following the bursting of these super bubbles, on every occasion we experienced:

- A decent recession
- A fall of at least ~50% in the broad stock market from peak to trough.

Now, history doesn't have to repeat itself, but when we combine that precedent with the business conditions outlined earlier, we feel there is a need for caution and to avoid the eye of the bubble.

Reasons for optimism

Whenever you're looking at the big picture, you need to maintain a balanced view, and there are positive factors that are also in play.

China is in a completely different economic phase from the other major countries. China has just experienced its worst recession in 20 years, and its economy went through the COVID experience without fiscal or monetary stimulus, resulting in a 50% fall in housing sales and a decline in retail sales, whereas in the West they boomed due to stimulus cheques. However, the about-face on its zero-COVID policy should see the economy recover. We are seeing the first signs of that recovery coming through, and the government is very clear they want to boost domestic consumption.

What does that mean for the rest of the world? The old adage was that when the US economy sneezes, the rest of the world catches a cold. This was because the US economy and capital market were so much larger than every other country.

The difference today is that the Chinese economy is only ~20% smaller than the US, which is the closest single country to rival the US in size since Japan in the 1980s, but even then, the Japanese economy was about 40% smaller.

> **China has been in one of the all-time great bear markets. The Hang Seng China Enterprises Index (HSCEI), comprising prominent mainland Chinese companies listed in Hong Kong, fell 60% from its most recent peak in February 2021 to October 2022 and is still down 44%.**

So, we have two big economic engines; one is sputtering, and we expect the other to grow, and for certain goods and industries, the Chinese economy is likely large enough to offset some of that recessionary pulse out of the US.

The other positive is **employment**. To date, in both Europe and the US, employment has been considerably stronger than many expected. Europe managed to shake off a major energy crisis and unemployment did not weaken, while in the US, we are only just seeing the first hint of a pick-up in unemployment claims. Compared to history, the labour market is still incredibly strong in both economies. We would also add that the Australian consumer has remained incredibly resilient in the face of higher mortgage rates. So, we need to respect that resilience.

The third positive factor is cautious **investor sentiment**. While investors are certainly not panicked, there is an undercurrent of concern, and this means investors are generally more mentally prepared for tougher times ahead. Once investors have had time to digest the prospect of problems, they are more likely to look through them.

We also need to note that last year, the broad US and European stock markets fell around 25%. After accounting for inflation, in real terms, the fall was more like 35%, which historically is a pretty decent fall.

Opportunities

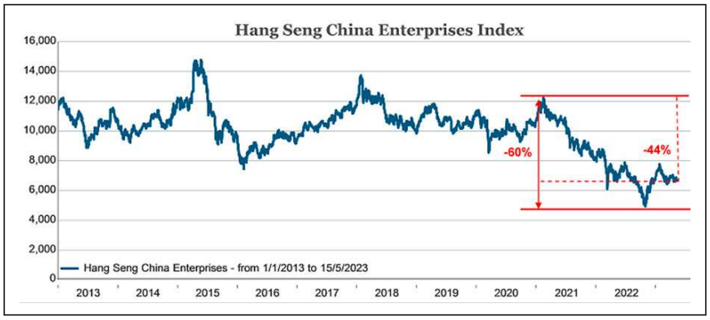
While we are cautious about how the business cycle is developing in the US, as investors, we need to keep our eyes wide open to what is happening and opportunities.

China has been in one of the all-time great bear markets. The Hang Seng China Enterprises Index (HSCEI), comprising prominent mainland Chinese companies listed in Hong Kong, fell 60% from its most recent peak in February 2021 to October 2022 and is still down 44%.

The market fall was driven by the zero-COVID policy-induced recession plus extreme fears over geopolitics. So, we are starting from a position of deep investor negativity, with an economic recovery on the horizon being a large positive, as mentioned above.

One of our holdings in China is **AK Medical**, the country's largest domestic manufacturer of orthopaedic products

Fig. 5: Hang Seng China Enterprises Index – Still well below its 2021 highs



Source: FactSet Research Systems, as at 15 May 2023.

(mainly hip and knee). AK has been the most R&D focused of the domestic players, building a 20% market share and being the first to gain approvals for a number of its 3D-printed/more innovative implants.

Mispricing opportunity: The stock was heavily sold down due to the short-term impact of winning the new volume-based procurement (VBP) system on their profits. In winning the contract, AK is providing the health system with a low-priced line of five standard hip and knee implants, that will be sold in high volume.

What are positives looking forward?

- **Significant expansion of surgeon relationships.** In orthopaedic implants, the buying decision is made by the surgeon, and companies go to great lengths to familiarise surgeons with their products. Post winning the VBP, AK's medical implants will be used by 90% of Chinese hospitals, and AK is building relationships with thousands of new surgeons, who can be introduced to AK's higher-priced products in time.
- **Chinese government's push for self-reliance.** After the US government's semiconductor chip bans, the Chinese government has been encouraging domestic companies to make higher-end goods, including medical products. To date, the Chinese implant market has been dominated by foreigners, with around 50% of the market held by US companies like Johnson & Johnson and Stryker. The Chinese government is reimbursing surgeons who use domestically made implants. This has seen companies like AK Medical win share from foreigners.

- **A relatively small and nascent orthopaedic implant market.** Implants per 1,000 head of population are five times higher in Japan and Korea and ten times higher in Europe and the US than they are in China. Orthopaedic procedure rates are strongly correlated with the standard of living, and as the middle-income group grows, we believe the orthopaedic market in China has the potential to double or triple from current levels.

In Europe, we have a holding in **Infineon Technologies**, the leading supplier of high-end power semiconductors for automotive and industrial customers. These chips are critical in converting and managing power from, say, an electric vehicle battery to the required voltages of all the components. Infineon also produces a range of automotive-specific microcontrollers that benefit from the growing electrical complexity of cars.

Mispricing opportunity: Last year, you could buy Infineon on 12x earnings as investors were worried about a downturn in the semiconductor cycle and a recession in Europe due to gas shortages. Ultimately, we believe this company has a nice growth runway ahead, and we felt that the market was undervaluing this potential, so we started building a position in the stock over the course of 2022.

Three key growth drivers:

- **Shift to electric vehicles.** EVs have six times the power semiconductor content of internal combustion vehicles.
- **Shift to advanced driver assistance.** Cars are getting more and more computation power, which further increases the power semiconductor content.
- **Bias to electrify (heating, etc).** Heat pumps and solar inverters require more power semiconductors.

Summary

The environment sounds daunting; however, we believe we must keep in mind the incredible buying opportunities and long-term wealth that can be built if you are willing to invest in these environments. These cycles are nothing new; we just need to understand them and take advantage of them.

In that regard, we will continue to invest in companies that can still grow in this environment or have already priced in their recession, all the while remaining disciplined on valuation and what we are paying.

Clay Smolinski is Co-Chief Investment Officer and Portfolio Manager at Platinum Asset Management, a sponsor of Firstlinks.

Firstlinks (formerly Cuffelinks) is a publishing service providing content written by financial market professionals with experience in wealth management, superannuation, banking, academia and financial advice.

Investing Intelligently Internationally

BY ARIAN NEIRON

Republished from sharecafe.com.au

Benjamin Graham is the second most famous investor in the world, surpassed only by his pupil Warren Buffett. Such was his influence on Buffett, Buffett named his son, Howard Graham after his mentor. Benjamin Graham's magnum opus is his book on value investing, 'The Intelligent Investor'. In his preface to the fourth edition, Buffett calls the book, "the best book about investing ever written."

The book details how *investors* can avoid the trappings of becoming speculators. Graham defines investors as those that seek the preservation of the principal of their investment and an adequate return. Investment decisions not having these objectives, Graham says are made by *speculators* and are exposed to higher risks and costs. *Investors* invest for the long term, through the market cycle.

According to the book the term long-term investor is redundant. There is only one kind of investor. "Someone who can't hold their investment for more than a few months at a time is doomed to end up not as a victor but as a victim."

The book is littered with examples of the shortfalls of attempting to time the market. Markets are unpredictable. The challenge for investors is to find and stick to an approach that captures growth beyond the average returns of markets. This is easier said than done. Graham suggests a number of ways for investors to go about this.

A recurring theme of 'The Intelligent Investor' is that investors should demand from a company "a **sufficiently strong financial position** and the prospect that its **earnings will at least be maintained over the years**."

Graham defines a *strong financial position* as one in which long-term debt does not exceed current net assets and a high return on equity (ROE). Graham argues the best way to determine the prospect that earnings will be maintained is to examine the earnings of the company for the past ten years.

It would be impossible for "intelligent" Australian investors diversifying internationally to analyse these characteristics for each company around the world.

MSCI, one of the world's largest index providers, does the work for us. MSCI analyses the stocks in its global universe and identifies the companies with the strongest fundamentals for inclusion in its 'Quality' Indices.

According to MSCI, "Quality growth companies tend to have high ROE, stable earnings that are uncorrelated with the broad business cycle, and strong balance sheets with low financial leverage."

MSCI's description matches the characteristics Graham insists investors should demand from companies and is the basis for the MSCI's World ex Australia Quality Index.

MSCI only includes the highest scoring, top 30% by market capitalisation of its global universe. MSCI Quality scores are based on three fundamental factors:

1. ROE;
2. Earnings variability; and
3. Debt to equity ratio.

VanEck's MSCI International Quality ETF (ASX code:

QUAL) tracks the MSCI World ex Australia Quality Index which means "Intelligent Investors" can access a portfolio of 300 quality international companies in a single trade on the ASX.

Table 1 – QUAL Performance to 31 May 2023

	1 Mth (%)	3 Mths (%)	6 Mths (%)	1 Yr (%)	3 Yrs (% p.a.)	5 Yrs (% p.a.)	7 Yrs (%p.a.)	Since QUAL Inception (% p.a.)
QUAL	3.92	15.83	13.70	19.90	12.07	14.87	14.16	15.10
MSCI World ex Australia Index	1.18	8.43	7.72	13.37	11.91	11.29	11.37	12.23
Difference	**+2.74**	**+7.40**	**+5.98**	**+6.53**	**+0.16**	**+3.58**	**+2.79**	**+2.87**

*Inception date is 29 October 2014

Source: Morningstar Direct, VanEck. The chart above shows past performance of QUAL and of the MSCI World ex Australia Index. You cannot invest directly in an index. Results are calculated to the last business day of the month and assume immediate reinvestment of distributions. QUAL results are net of management fees and other costs incurred in the fund, but before brokerage fees and bid/ask spreads incurred when investors buy/sell on the ASX. Returns for periods longer than one year are annualised. Past performance is not a reliable indicator of future performance. The MSCI World ex Australia Index ("MSCI World ex Aus") is shown for comparison purposes as it is the widely recognised benchmark used to measure the performance of developed market large- and mid-cap companies, weighted by market capitalisation. QUAL's index measures the performance of 300 companies selected from MSCI World ex Aus based on MSCI quality scores, weighted by market cap x quality score at rebalance. Consequently QUAL's index has fewer companies and different country and industry allocations than MSCI World ex Aus.

Since its launch in 2014, QUAL has outperformed the returns of the market as measured by the MSCI World ex Australia Index.

Last year, VanEck recently launched a microsite to help investors understand the quality factors – click here.

The long-term results of Graham's practices are well documented and evidenced by the ongoing success of his many high-profile pupils.

Arian Neiron is CEO & Managing Director, Asia Pacific, at VanEck. Prior to joining VanEck, Arian was a partner at boutique asset management advisory firm Sunstone Partners and was previously at Perpetual Investments, Credit Suisse and MLC.

Q&A: Ask a Question

Question 1

Should I consolidate my super accounts?

Deciding whether to consolidate your superannuation accounts depends on your specific financial situation and goals. Consolidating your super accounts can have several potential benefits, but it's important to consider the following factors before deciding:

1. Reducing fees: By consolidating multiple super accounts into a single account, you may be able to reduce the overall fees you pay.
2. Simplifying management: Managing multiple super accounts can be cumbersome and time-consuming. Consolidating your accounts can simplify the management process.
3. Investment strategy: Consolidating your super accounts allows you to have a more cohesive investment strategy. With multiple accounts, you may have different investment options, risk profiles, and asset allocations.
4. Insurance coverage: If you have insurance coverage within your super accounts, consolidating may impact your insurance arrangements.
5. Lost benefits: Before consolidating, consider any benefits or features that may be attached to your existing super accounts. Some accounts may offer unique benefits, such as lower fees, performance bonuses, or access to specific investment options.
6. Exit fees and penalties: Some super funds may charge exit fees or impose penalties for transferring or consolidating your super.

We recommend that you speak with your financial adviser before making any decision regarding superannuation.

Question 2

My insurances are costing too much, what can I do?

If your insurance premiums are becoming unaffordable, there are several steps you can take to address the issue:

1. Review your insurance policies: Assess your current insurance policies to understand the coverage and premiums associated with each one. Determine if you have any redundant or unnecessary policies that can be cancelled or consolidated.
2. Shop around for better rates: Research and compare insurance providers to find better rates for the same or similar coverage.
3. Adjust coverage levels: Evaluate whether you can reduce the coverage levels on your policies to lower the premiums. However, make sure that the coverage remains adequate for your needs and that you're comfortable with the level of protection.
4. Improve your health and fitness: Some insurance premiums are influenced by your health. Making efforts to regularly exercise, improve health and stop unhealthy habits such as smoking may lead to lower premiums.

Remember, while reducing insurance costs is important, it's crucial to maintain adequate coverage for your specific needs and circumstances. We recommend you speak to your financial adviser to have your insurances best tailored to your situation and goals.

Question 3

How can I manage my cash flow effectively?

1. Create a detailed budget: Develop a comprehensive budget that tracks your income and expenses. Categorize your expenses into essential and discretionary categories as well as prioritize essential expenses. This will help you understand where your money is going and make informed decisions about spending.
2. Reduce unnecessary expenses: Identify areas where you can cut back on discretionary spending. Look for ways to trim unnecessary expenses such as dining out, entertainment subscriptions, or non-essential purchases. Focus on reducing expenses that don't align with your priorities and financial goals.
3. Build an emergency fund: Set aside a portion of your income regularly to build an emergency fund. Aim to save 3-6 months' worth of living expenses. Having a financial safety net will help you manage unexpected costs and avoid relying on credit cards or loans in times of financial stress.

By creating a budget, cutting back on unnecessary expenses, and building an emergency fund, you can take proactive steps to manage your cash flow effectively and improve your financial well-being. We recommend that you speak to your financial adviser to discuss cashflow strategies tailored to your situation.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

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