

Narrow Road Capital's Greatest Hits

This time of year I usually take a break from writing articles and instead send through my best articles from the past year. This year I've dug back in the archives to the inception of Narrow Road in 2012. The articles chosen are a mix of credit commentary and pieces aimed at informing government policy. Whilst I've made many good calls in my credit articles, the impact of my policy pieces has possibly been far greater. There's been several instances where, in the years following the publication of my position in an article, government policy has shifted to something very similar to what I've advocated. Here's my greatest hits so far.

[Should Qantas be Given Taxpayer Assistance and What Will it Cost?](#) February 2014

Qantas has had a remarkable turnaround and it would be easy to forget that it was begging for a government guarantee of its debt in 2014. I argued that a guarantee was unnecessary and dangerous, but I also put a price on what it should cost if the government was going to press ahead regardless.

[The Perils of Preference Shares](#) – July 2014

Benjamin Graham wrote in 1949 that preference shares "should be bought on bargain basis or not at all". This article is a warning to Australian retail investors of the dangers of investing in hybrids using recent Australian examples to highlight how the deck is stacked in favour of issuers.

[The Great Fee Debate: Resetting Manager and Investor Expectations](#) – August 2014

Capital allocators and fund managers both have unrealistic expectations of what the other side should be doing. Here's my view on how each side should be thinking and acting.

[Memo to Howard Marks: Government Debt is the New Subprime](#) – January 2016

At the time, Howard Marks had written that he didn't see anything that looked as dangerous as subprime was in 2007. I took up the argument, pointing out that government debt is a massive market that carries much higher risk of default than almost all investors believe it has.

[What's a Rating Agency Opinion Worth?](#) July 2016

Rating agencies do a good job of assessing default risk for some securities and a poor job on others. Here's my view on how they stack up in rating corporates, sovereigns, banks and securitisation debt.

[Why Banks Fail: The Definitive Guide to Solvency, Liquidity and Ratios](#) – August 2016

Banks are complex, but understanding why banks fail and what can be done about it doesn't have to be. This article detailed how APRA could strengthen the resilience of Australian banks via a substantial increase in tier 2 debt, a policy they have just released for public consultation.

[Why Traditional Asset Allocators Get Low Returns and Pay High Fees](#) – August 2016

Most institutional asset allocators get lower returns and pay higher fees than they should because they buy the packaging rather than the product. They can learn a lot from the way family offices work with emerging fund managers.

[Deutsche Bank Needs a Bail-In, Here's How It Can Be Done](#) – October 2016

Deutsche Bank is at best borderline for both solvency and profitability with a bail-in the best option to rectify that. Since I wrote this article the share price has almost halved.

[If Australian Politicians Cared About Housing Affordability Here's What They Would Do](#) – November 2016

There's been a lot of noise about the price of electricity in Australia but it's a small part of the family budget compared to the cost of housing. If Australian politicians cared about housing affordability and the cost of living they would start implementing the eight obvious and much needed changes outlined in this article.

[The Dallas Pension Fiasco Is Just the Beginning](#) – January 2017

The blow-up of the Dallas Police and Fire Pension Plan was entirely predictable. There are many, many more defined benefit pension plans in the US and Europe following the same pathway. When the next major crisis hits there will be a wave of pension plan and government debt defaults.

[Harvard Show the Pitfalls of Internalising Funds Management](#) – February 2017

The decision by Harvard to terminate half of its investment staff and outsource funds management bucked the global trend to internalise funds management. This article pointed out why internalising is far harder than it looks.

[Safe Harbour Changes Would Legalise Theft](#) – June 2017

The Australian government proposed changes to insolvency legislation that would have given companies and their directors far greater opportunity to steal from their employees, taxpayers and trade creditors. I was one of a very small group to argue against the vested interests pushing for these changes. In the end, the safe harbour legislation that passed is so narrow that few companies will be able to take advantage of the much touted changes.

[Emerging Market Debt: Dumb, Dumber and Dumbest](#) – August 2017

Using Argentina, Greece and Iraq as examples, I pointed out how emerging market debt was getting pretty stupid. The substantial falls for emerging market debt in 2018 have made this call look prescient.

[Cryptocurrencies and Blockchain are Just Reruns of 90's Bubbles](#) – September 2017

Like the baseball cards and internet bubbles of the 90's, cryptocurrencies and blockchain will almost certainly fail to live up to the hype. I wrote this article three months before the peak of the crypto-bubble with the events of 2018 making it one of my most accurate and timely calls.

[Loitering around the lifeboats](#) – November 2017

At the end of 2017 I argued that investors should be taking defensive positions with their equity and credit allocations. The market falls recorded in 2018 made this call look pretty good.

[IMF on China: A Downturn in Inevitable](#) – January 2018

I've been writing about the unsustainable economic and financial imbalances in China for several years. Having an authoritarian government allows the imbalances to grow for longer but will make the inevitable downturn far deeper.

[The Economics of Population Growth](#) – March 2018

This article discussed both the obvious and the unseen implications of population growth, with the aim of allowing all Australians and particularly our political leaders to consider whether a bigger Australia is better. The reduction in migration levels argued for in this article has since gained some traction amongst the political class.



[How ASIC Can Become a Feared Regulator](#) – April 2018

The misconduct of large financial institutions exposed by the Royal Commission shows that they had no fear of ASIC. I laid out a simple plan on how this could be quickly rectified, with many of the elements picked up by APRA in its recent crackdown on IOOF.

[The Coming High Yield Downturn will be Big, Long and Ugly](#) – May 2018

US high yield debt has grown larger and riskier since the financial crisis. This article outlines what the next downturn will look like and puts forward three strategies for investors to implement. The blowout in spreads since I wrote this article makes the call look very timely, but there's far more to play out in this sector over the medium term.

[The Arguments Against Austerity are Simplistic and Short Term](#) – October 2018

Recent high profile articles arguing against austerity lack logic and economic analysis. This article demonstrates why austerity is the better long term prescription.

Written by Jonathan Rochford for Narrow Road Capital on January 2, 2019. Comments and criticisms are welcome and can be sent to info@narrowroadcapital.com

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