

SMARTLIFE

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PRIVATE WEALTH

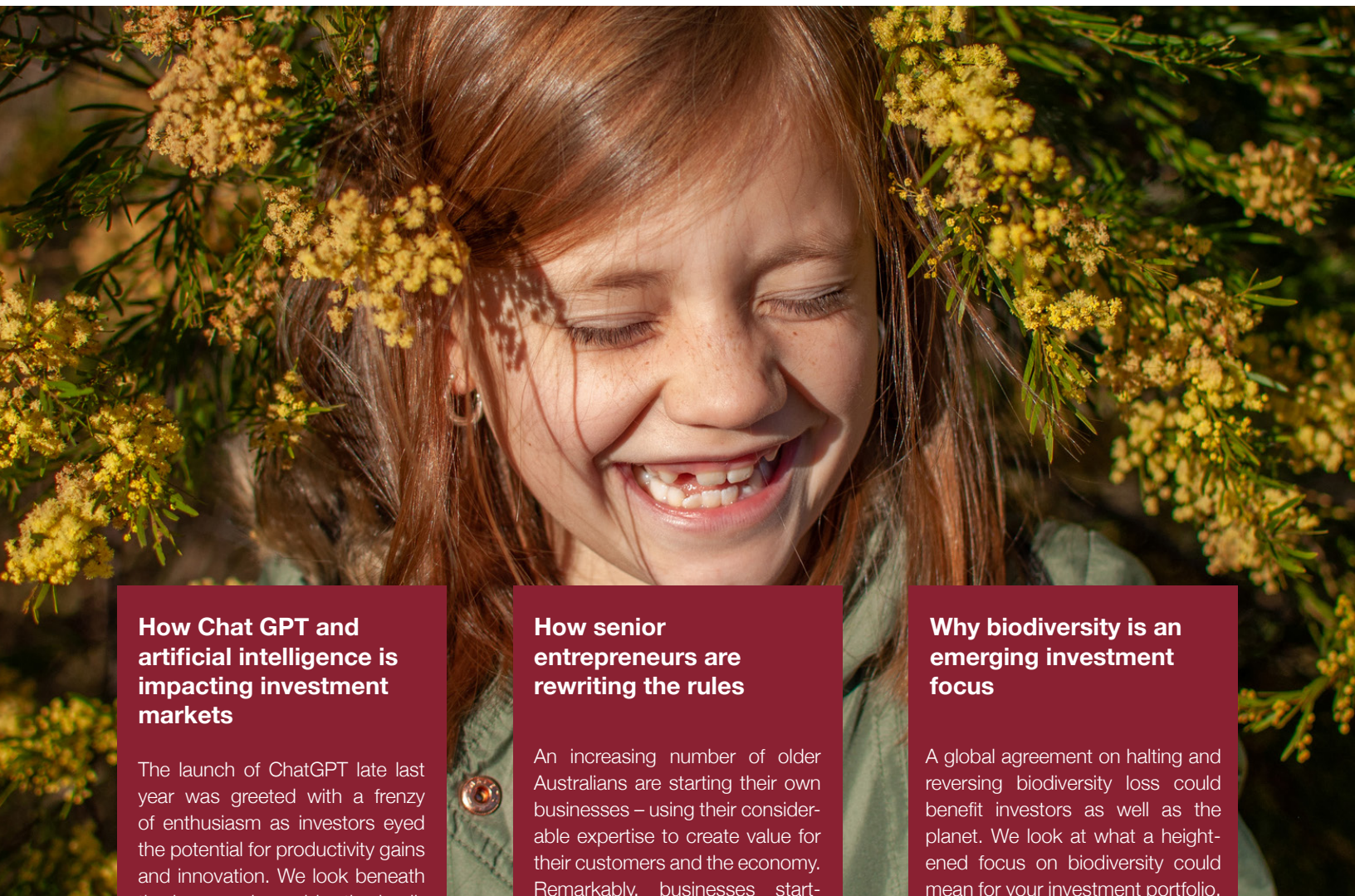
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How ChatGPT and artificial intelligence is impacting investment markets
How senior entrepreneurs are rewriting the rules on work and retirement
Why biodiversity is an emerging investment focus

Welcome to the Spring 2023 edition of SMART Life.



How Chat GPT and artificial intelligence is impacting investment markets

The launch of ChatGPT late last year was greeted with a frenzy of enthusiasm as investors eyed the potential for productivity gains and innovation. We look beneath the hype and consider the implications for your investment portfolio.

How senior entrepreneurs are rewriting the rules

An increasing number of older Australians are starting their own businesses – using their considerable expertise to create value for their customers and the economy. Remarkably, businesses started by older people have a much higher success rate than other-start ups. What's more, there are also unexpected benefits for the business owners themselves. We examine the reasons why.

Why biodiversity is an emerging investment focus

A global agreement on halting and reversing biodiversity loss could benefit investors as well as the planet. We look at what a heightened focus on biodiversity could mean for your investment portfolio.

How ChatGPT and artificial intelligence is impacting investment markets.

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What is ChatGPT?

ChatGPT (Generative Pre-Trained Transformer) is an advanced form of artificial intelligence (AI) chatbot that can understand and generate human-like conversation. It was launched by a private US company, open.ai, in November 2022.¹ A raft of other technology companies are also developing and launching artificial intelligence applications.

Productivity benefits predicted across the economy.

AI is automating many of the tasks that people do and has the potential to boost productivity, reduce costs, and create new innovation opportunities. Businesses that effectively leverage the technology are likely to get a benefit. Remarkably, research by McKinsey estimates that generative AI could add the equivalent of \$2.6 trillion to \$4.4 trillion annually to the global economy. To help you make sense of these numbers, as a comparison, the United Kingdom's entire GDP in 2021 was \$3.1 trillion.²

About 75% of the value that generative AI could deliver is likely to come from four areas: customer operations, marketing and sales, software engineering and research and development.

Generative AI can support interactions with customers, generate creative content for marketing and sales, and draft computer code based on natural conversation prompts.³

And as the technology evolves, more ways to use it will be discovered.

1 [Openai.com](https://openai.com)

2 McKinsey, [The economic potential of generative AI: The next productivity frontier](#), 14 June 2023, accessed 11 July 2023.

3 Ibid.

4 Calculated using close prices for the [NYSE FactSet Global Robotics and Artificial Intelligence Index](#) and the [S&P 500](#) from 30 November 2022 to 30 June 2023.

5 McKinsey, [What is the Fourth Industrial Revolution?](#) 17 August 2022, accessed 11 July 2023.

6 Forbes, [The Third Industrial Revolution -- Internet, Energy And A New Financial System](#), 4 March 2015, accessed 11 July 2023.

Opportunities for your investment portfolio.

Investment markets have shown a lot of enthusiasm for AI and Chat GPT technology. Since the launch of ChatGPT on 30 November 2022, the NYSE FactSet Global Robotics and Artificial Intelligence Index increased 24% to 30 June 2023. In contrast, the S&P 500 had a smaller uplift of 9% for over the same period.⁴

Some commentators are couching AI as part of a fourth industrial revolution that promises to increase labour productivity across the economy.⁵ Here's some context.

The first industrial revolution started in the late 1700s with the mechanisation of the textile industry. The second industrial revolution, from the late 1800s, was from mass production, such as the Ford assembly lines. If you're old enough, you may remember the third industrial revolution of the 1990s, when the internet linked desktop PCs. This spurred huge productivity growth that was reflected in gross domestic product gains for countries across the globe together with share market growth.⁶

In a similar way, it may be that widespread AI productivity gains could boost economic growth and share market performance across the world.

And share market investments that specialise in the technology sector offer concentrated exposure to the AI value-chain. This value chain includes companies that are developing and integrating AI technology as well as companies that supply the hardware and software that AI relies on – such as cloud services and computer chips.

As with any innovation that captures wide-spread public attention, it's important to be wary of market hype, inflated company valuations and price bubbles. So, if you're interested in increasing your exposure to AI technologies, we recommend professional financial advice and expert investment management, so that your investment is optimised for long-term growth.



How senior entrepreneurs are rewriting the rules on work and retirement.

An increasing number of older Australians are starting their own businesses – using their considerable expertise to create value for their customers and the economy. Remarkably, businesses started by older people have a much higher success rate than other startups. What’s more, there are also unexpected benefits for the business owners themselves.

It’s a popular myth that young visionaries are, on average, the most successful entrepreneurs. Yet research shows that people aged over 50 not only start more businesses, but also achieve greater business success.

What’s more, people aged between 65 and 74 are even more likely to start a business than those aged 50 to 64.⁷

Older Australians launch businesses for a range of reasons. It may be the experience of age discrimination when looking for work, or a desire for challenge, control and flexibility.

Either way, senior entrepreneurs are a growing economic force to be reckoned with.⁸



In Australia, senior entrepreneurs are starting businesses at a scale that's amongst the highest in the world. Almost one in 10 Australians (9.3%) aged between 55 and 64 are either starting a business or are in the early stages of a business startup.¹⁰

Taking a global view, the number of people aged over 50 who start a business is growing – at a faster rate than any other age group.⁹

Senior entrepreneurs launch a prolific 14,000 new businesses each year in Australia. And the 379,000 businesses run by senior entrepreneurs represent a sizeable 34% of all Australian small businesses – together contributing a staggering \$11.9 billion to the Australian economy each year.¹¹

What's more, of the 5% of retirees who 'unretire', that is, leave retirement to return to work, a third unretire into self-employment.¹²

Greater industry and life experience.

Senior entrepreneurs bring to their businesses more extensive and varied professional experience than younger entrepreneurs.¹⁴ And in addition to work skills, they've got the best experience of all – from the university of life.

Senior entrepreneurs are more likely than younger age groups to deeply understand their industry. This experience means they're better able to identify and evaluate business opportunities. They're also more likely to design products and services that meet the needs of paying customers. What's more, their know-how often delivers lower startup and running costs.¹⁵

Broader networks.

Large personal, social and professional networks are key to business success. This is because business owners can draw on the expertise of their connections and more readily obtain the resources they need. And knowing more potential customers is good for sales.¹⁶ Because they're built up over a lifetime, the networks of older entrepreneurs are generally unparalleled.

The capacity to self finance.

Senior entrepreneurs are most likely to finance their business start-up with their own money. Self-funding makes it easier to start a business, reducing capital costs, risk and stress. What's more, a stronger financial position means the business is less likely to experience funding constraints, making growth easier.¹⁹

Senior entrepreneurs more likely to succeed.

Businesses started by senior entrepreneurs have a much higher survival rate than other startups.¹³ And the reasons are many: experience, connections, the right mindset and the capacity to self-finance.

Positive mindset and motivation.

Compared with younger age groups, older entrepreneurs are less likely to be motivated by money alone. Instead, they're more likely to be driven by a desire to solve a problem or create value for their customers. Senior entrepreneurs often have greater self-belief and persistence – two traits necessary for a successful business.¹⁷

As risk tolerance decreases with age, senior entrepreneurs are more likely to pursue robust and therefore less speculative business opportunities. And this risk-awareness contributes to a lower fear of failure than for younger age groups.¹⁸

The benefits of self-employment

As Australians enjoy longer and healthier lives, it makes sense that more people will want to tap into the benefits of working for longer – blending retirement and work. While not everyone wants to or has the skills to start a business, self-employment may bring compelling advantages:

- **Control.** Greater work autonomy and independence may increase your scope to control what work you do and who you work with.²⁰
- **Flexibility.** Self-employment can bring greater flexibility in terms of when you work and how many hours you work. Reducing hours can be more desirable than giving up work completely, enabling more Australians to shape their retirement in a way that suits them.²¹
- **Purpose and mental agility.** Entrepreneurship can bring mental challenges, keeping your body active, staving-off boredom, maintaining social connections and bringing value to other people.²² Retaining daily routines can be a healthy way to age.²³
- **Conserve retirement savings.** If you delay dipping into your retirement savings, they'll last a lot longer, increasing your income and standard of living for a time when you no longer want to work.



7 M Backman, C Karlsson, O Kekezi, (Eds.) Handbook of Research on Entrepreneurship and Aging; Research Handbooks in Business and Management Series; Edward Elgar: Cheltenham, UK, 2019.

8 Ibid.

9 A Martiz, A Perenyi, G de Waal, C Buck, **Entrepreneurship as the Unsung Hero during the Current COVID-19 Economic Crisis: Australian Perspectives, Sustainability**, 2020.

10 Ibid.

11 Ibid.

12 M Backman, C Karlsson, O Kekezi, 2019.

13 Ibid.

14 Ibid.

15 Ibid.

16 Ibid.

17 Forbes, **Older Entrepreneurs Outperform Younger Founders—Shattering Ageism** (forbes.com), 23 August 2022, accessed 11 July 2023.

18 M Backman, C Karlsson, O Kekezi, 2019.

19 Ibid.

20 Ibid.


21 Ibid.

22 Ibid.

23 A Martiz, A Perenyi, G de Waal, C Buck, 2020.

Why biodiversity is an emerging investment focus.

A global agreement on halting and reversing biodiversity loss could benefit investors as well as the planet. Here's what a heightened focus on biodiversity could mean for your investment portfolio.



In December 2022, representatives from governments around the world came together in Montreal to agree on new goals aimed at halting and reversing nature loss.

As a result, biodiversity is now an important investment lens for investors around the world, and initiatives that support biodiversity may provide strong growth opportunities.

What's behind the interest in biodiversity?

We all rely on our planet's complex ecosystems to live. Natural ecosystems support our water supply, provide the food we eat, filter the air we breathe and store the carbon we generate.

The goods and services that nature provides us have been estimated to be worth more than US\$150 trillion annually – about twice the world's GDP.²⁴

Sadly, our planet's biodiversity has been in crisis for years. Of today's animals and plant species, one in four could face extinction. Three-quarters of land-based ecosystems and two-thirds of our oceans have been negatively affected by human activities, according to the United Nations.

And the destruction of natural habitats, depletion of natural resources, pollution, climate change and the introduction of invasive species are all fuelling biodiversity loss.²⁵

From an Australian perspective, this biodiversity loss is predicted to wipe out up to US\$20 billion annually from Australia's economy by 2050.²⁶

That's why 190 governments reached a landmark agreement in December 2022 at the United Nations biodiversity conference (COP15) to preserve nature and reverse habitat loss by influencing the priorities and disclosures of companies and investors.²⁷

Importantly, a focus on biodiversity doesn't mean neglecting climate change – the two are closely related. One of the solutions to reducing climate change is storing carbon.

And one of the best ways to store carbon is by preventing deforestation and habitat destruction, and by restoring ecosystems.

What's changed?

The COP15 agreement includes concrete measures to halt and reverse nature loss and protect the rights of indigenous peoples, setting 23 targets for 2030, including:²⁸

- Requiring multinational companies and financial institutions to monitor, assess and transparently disclose risks and impacts on biodiversity from their operations, portfolios, supply and value chains.
- Mobilising at least US\$200 billion per year from public and private sources for biodiversity-related funding.

- Phasing out government subsidies that harm biodiversity. At the same time, ramping up positive incentives for biodiversity conservation and sustainable use.
- Conservation and management of at least 30% of the world's land, coastal areas and oceans. Currently, only 17% of land and 8% of ocean areas are protected.
- Restoring 30% of land and ocean ecosystems.
- Reducing to near zero the loss of areas of high biodiversity importance and high ecological integrity.
- Cutting global food waste by half.²⁹

What does biodiversity mean for your investment portfolio?

As governments work to translate the 23 targets into national strategies and action plans, the focus of professional investors on biodiversity is growing. Companies and financial institutions are already starting to assess their impact on biodiversity and formulate initiatives to combat biodiversity loss.

The companies and technologies that are part of the solution stand to benefit. So when your fund manager invests in these areas, your money is making a positive difference to biodiversity while also contributing to your long-term performance goals.

These businesses and technologies may include:

- **Products and services that provide a nature-friendly alternative** to the status quo, for example, sustainable packaging that doesn't pollute waterways or go to landfill.
- **Technologies that better preserve and support ecosystems**, for example, precision agriculture technologies that use tools such as data analysis and soil sensors to deploy water and fertilisers more efficiently and regenerate soil fertility.³⁰
- **Reengineered business processes and products that minimise negative impacts.** Incremental improvements in production systems can contribute big gains in biodiversity conservation. One example is mining technologies that prevent toxic run-off into water systems.

We expect to see an uptick in innovation and potential investment opportunities as companies start reporting their activities through a biodiversity lens.

Companies with ‘red flags’ likely to be avoided by global investors.

We’ll also see more investors looking for red flags in company reporting. These include the lack of a sustainability strategy or failure to mention biodiversity, conservation, ecology or nature in the company strategy. Organisations that fail to note their impacts on biodiversity, either in their supply chain or downstream in their value chain, may find it difficult to attract capital.

How your Smart Private Wealth financial adviser can help.

If you’d like to discuss how a global investment focus on biodiversity could create opportunities for your investment portfolio, speak to us. We can advise you on your options, taking into account your overall financial goals.



24 BCG – Boston Consulting Group, **The Biodiversity Crisis Is a Business Crisis**, March 2021, accessed 26 July 2023.

25 MSCI, **What Biodiversity Loss and COP15 Mean for Investors**, 16 February 2023, accessed 26 July 2023.

26 ACSI – Australian Council of Superannuation Investors, Media release: “**COP15 an opportunity for finance sector to play a role in tackling nature loss**”, 15 December 2022, accessed 26 July 2023.

27 MSCI 2023.

28 UN Environment Program **COP15 ends with landmark biodiversity agreement**, 20 December 2022, accessed 26 July 2023.

29 UN Environment Program 2023.

30 CSIRO, **Precision agriculture**, accessed 26 July 2023.

Wage Price Index rises

0.8%

in June 2023 quarter.³¹

In 2021/22

90%

of children participated in screen-based activities,

with **24%** of those children spending 20 hours or more per week.²⁷

Seasonally adjusted balance on goods and services surplus increases by

\$824m

in June.²⁴

New data reveals a doubling in business cyber security incidents between the 2019-20 and 2021-22 financial years.³³

Value of total housing loan refinancing between lenders falls

3.1%

during the June 2023 quarter.³⁵

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Smart Private Wealth Pty Ltd
Corporate Authorised Representative of Count Financial Limited

ASIC ID 001275904

ABN 15631281822

Level 1, 328 Main Street Mornington VIC 3931

P (03) 5911 7000

www.smartprivatewealth.com.au