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Editorial

Open a business newspaper or magazine on any given day and you're bound to find an article or snippet on a rock star investment manager – Warren Buffett, Ray Dalio, Howard Marks, or locally, Phil King, Geoff Wilson and others. It's natural and understandable for investors to look to replicate the strategies and successes of these managers.

What the same newspapers and magazines rarely include are the fund managers who aren't doing well or have failed. The failures far outweigh the successes, yet you'll almost never hear about them. For instance, the managers who've trailed indices for some time or those who are forced to close funds.

Triumph being made more visible than failure isn't just an investing phenomenon. It's everywhere.

Think about musicians. We're overloaded with news about Taylor Swift. How she's a billionaire, how she's sold out her music tours, and how she's broken up with another boyfriend. We don't hear about the tens of thousands of wannabe musicians who don't make it professionally, even though many are extremely talented.

The same goes for sport. Roger Federer still makes headlines even when he is retired, but we don't read about the hard luck stories from the thousands of tennis players who couldn't quite get to Federer's level.

The same goes for books. The chances of getting on a New York Times bestseller list are tiny. Around 3 million books are published each year, and just over 6,000 of them end up on these lists, or 0.00208%. Becoming a famous author is a rarity.

There's a behavioural psychology term for all this: survivorship bias. We focus on the successes rather than failures, and consequently overestimate our ability to be a success in a certain field.

You're not Warren Buffett

Consider Warren Buffett. You might have heard of him. Buffett is a financial genius and was a genius from a young age. Recently, I read a speech from a hedge fund manager which gave a fantastic insight into the extent of Buffett's genius. Mark Sellers gave the talk – *So You Want to Be The Next Warren Buffett? How's Your Writing* - to a group of Harvard MBAs in 2007.

Sellers was blunt:

"I know that everyone in this room is exceedingly intelligent and you've all worked hard to get where you are. You are the brightest of the bright. And yet, there is one thing you should remember if you remember nothing else from my talk: You have almost no chance of being a great investor. You have a really, really low probability, like 2% or less."

Sellers went on to say that the Harvard students before him were undoubtedly a cut above the rest, and that meant the chances of the average person becoming a great investor – which he defined as one being able to compound returns at 20% per annum – were much smaller still.

Sellers thought that by the time that your brain had developed in your teenage years, you either had the ability to be a great investor or you didn't:

"… you can't compound money at 20% forever unless you have that hard-wired into your brain from the age of 10 or 11 or 12. I'm not sure if it's nature or nurture, but by the time you're a teenager, if you don't already have it, you can't get it. By the time your brain is developed, you either have the ability to run circles around other investors or you don't.

Going to Harvard won't change that and reading every book ever written on investing won't either. Neither will years of experience. All of these things are necessary if you want to become a great investor, but in and of themselves aren't enough because all of them can be duplicated by competitors."

Sellers then listed seven key traits of extremely successful investors:

1. The ability to buy stocks while others are panicking and sell stocks while others are euphoric.
2. They are obsessive about playing the game and wanting to win.
3. A willingness to learn from past mistakes.
4. An inherent sense of risk based on common sense.
5. Great investors have confidence in their own convictions and stick with them, even when facing criticism.
6. It's important to have both sides of your brain working, not just the left side (the side that's good at math and organization).
7. The ability to live through volatility without changing your investment thought process.

Sellers thought none of these traits could be learned by the time that you reach adulthood.

Number 2. on Sellers' list is worth elaborating on. If there's one thing that stands out from Alice Schroeders' biography of Buffett, *The Snowball*, it's not only his precocious ability from a young age, but his willingness to sacrifice everything to get wealthy. And I mean: everything. He was addicted to investing and neglected his wife, children, and friends, to achieve his goals.

Not only is Buffett's genius rare, but his investing obsession is rarer still.

Better to shoot for average, or better than average

Sellers in his speech wasn't all doom and gloom. He said that though the Harvard students were highly unlikely to become great investors, they could become above average ones through hard work and study. And that beating indices by a few points each year would hold them in good stead.

Shooting for above average results, or even average, is sage advice. It reminds me of US fund manager, John Neff, who ran the Windsor Fund from 1964 to 1995. In his biography, he comes across as a low key and humble man, and his portfolio often reflected that. He liked to buy stocks at a 40-50% discount to the market price-to-earnings ratio, with steady, growing earnings, and sound balance sheets. In other words, there were no momentum stocks, or loss-making ones on price-to-sales ratios of 10x or more. He stuck to low priced, steady compounders.

He ground away at that simple strategy for 31 years, beating the S&P 500 by 3.1% per year. It doesn't sound like much, but it resulted in $10,000 (with dividends reinvested) turning into $564,000 over the life of the fund.

Neff was more concerned with avoiding large losses than making big gains. In that, he echoes the sentiments of the great investment consultant, Charles Ellis, whose book, *Winning the Loser's Game*, I've written of previously.

Ellis writes of how the stock market has become a loser's game. That is, so many professional investors have entered investing that it's made the market extremely efficient. It makes beating the market difficult and even more so if you include costs such as fees and brokerage.

Ellis says there are two ways to play a loser's game. You can choose not to play. Even back in 1975, Ellis was already advocating index investing.

The second way of playing the loser's game is by losing less than your opponents, aka making fewer mistakes:

"In a Winner's Game, 90 per cent of all research effort should be spent on making purchase decisions; in a Loser's Game, most researchers should spend most of their time making sell decisions. Almost all of the really big trouble that you're going to experience in the next year is in your portfolio right now; if you could reduce some of these really big problems, you might come out the winner in the Loser's Game."

In my article this week - everyone knows Australian housing is expensive, but how expensive is it versus the rest of the world? A new *Demographia International Housing Affordability* report suggests our residential property is around 2x that of the US and UK on a price-to-income basis. And that it's cheaper to buy a house in New York than in Adelaide or Brisbane. The report lauds New Zealand for its recent moves to address housing affordability, though it's less complementary of the efforts of other countries.

James Gruber

Also in this week's edition...

Listed investment companies are trading at historically wide discounts to net assets. What's the catalyst for a turnaround? Lots of fingers have pointed to supply, size, liquidity, and performance, and other things. However, **Ophir's Andrew Mitchell** thinks the trigger for a turnaround lies with interest rates. He provides compelling data to back up his theory and why better times for LICs and LITs may be ahead.

A report released by **Vanguard** reveals new retirement challenges facing Australians, especially around housing. Nearly one in five retirees are renting, and almost one in three working Australians expect to still be paying a mortgage in retirement. The report says it's a critical issue because retiring with a house, minus a mortgage, has a large positive impact on retirement confidence.

Meanwhile, retirement can last more than 30 years, necessitating thoughtful planning. Many miss workplace friendships, identity, status, expertise, and routine, but these can be replaced with renewed activities and purpose, according to **Jon Glass**.

Warren Buffett is widely regarded as the most successful investor ever, and rather than keep his secret sauce hidden, he's shared his knowledge for decades. The question is: why haven't more investors been able to replicate his methods and success? Buffet author and fund manager, Robert Hagstrom, shares his thoughts, as **Joseph Taylor** reports.

It's that time of year where email inboxes fill with predictions for the ASX for the 2025 financial year. **Airlie's Vinay Ranjan** advice is: ignore all of them. Instead, he outlines three reasons to bullish, as well as three reasons to be bearish. Ultimately, Vinay thinks investors should ignore market noise and focus on buying quality companies.

For much of the past 40 years, a negative correlation between stocks and bonds has meant when stocks move up, bonds move down, and vice versa. That's been a godsend for investor portfolios as bonds have provided protection when equities pull back sharply. Recently, a positive correlation between the two assets has undermined bonds role as a portfolio diversifier. **Ray Gia** says investors should consider gold to help diversify their investments.

Lastly, in this week's whitepaper, **TD Epoch**, a **GSFM** affiliate, says while things are looking up for equities, it expects volatility and fundamentals to play a larger role in equity returns moving forward.

Australian housing is twice as expensive as the US

James Gruber

The Demographia International Housing Affordability report is a widely respected annual survey of residential property across eight countries. This year's 20th edition of the report has tonnes of great data, much of which doesn't make for nice reading for Australia. That said, previous editions haven't been too kind either.

The report measures housing affordability on a median price-to-income ratio, or 'median multiple'. Then it breaks housing markets down into categories, from affordable, down to impossibly unaffordable. A median multiple of 3x or under is deemed affordable, while 9x or over is considered impossibly unaffordable.

The report only introduced the category of 'impossibly unaffordable' this year to describe cities where housing purchases are extremely expensive relative to incomes, topping its previous highest category of 'severely unaffordable'.

DEMOGRAPHIA HOUSING AFFORDABILITY RATINGS	
Housing Affordability Rating	**Median Multiple**
Affordable	3.0 & Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 & 8.9
Impossibly Unaffordable	9.0 & Over

Median multiple: Median house price divided by median household income

Source: Demographia International Housing Affordability 2024 edition

Here's how Australia stacks up against seven other developed countries.

Housing Affordability Ratings by Nation: Totals by Market							
Nation	**Affordable (3.0 &Under)**	**Moderately Unaffordable (3.1-4.0)**	**Seriously Unaffordable (4.1-5.0)**	**Severely Unaffordable (5.1 - 8.9)**	**Impossibly Unaffordable (9.0 &Over)**	**Total**	**Median Market**
Australia	0	0	0	2	3	5	9.7
Canada	0	1	1	2	2	6	5.6
China: Hong Kong	0	0	0	0	1	1	16.7
Ireland	0	0	1	0	0	1	4.8
New Zealand	0	0	0	1	0	1	8.2
Singapore	0	1	0	0	0	1	3.8
United Kingdom	0	2	12	9	0	23	5.0
United States	0	11	23	17	5	56	4.8
TOTAL	0	15	37	31	11	94	5.0

Source: Demographia International Housing Affordability 2024 edition

Australia's five major capital cities, excluding Darwin, Canberra, and Hobart, are considered either severely unaffordable, with price-to-income ratios between 5.1x and 8.9x, or impossibly unaffordable, with median multiples of 9x or more. The median price-to-income multiple across the five cities is 9.7x.

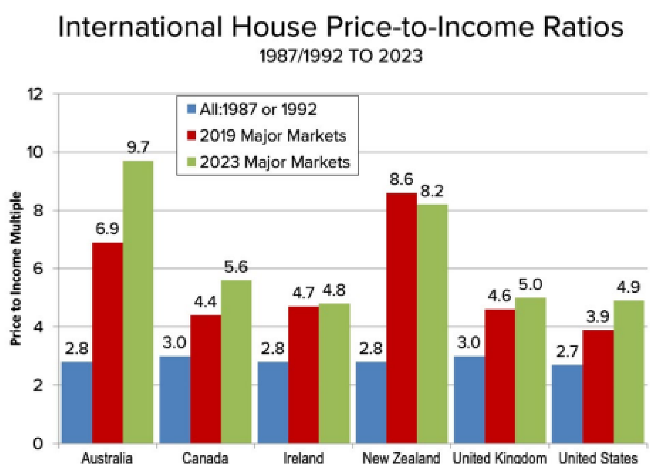
The chart shows that Australia's median multiple is more than 2x the US market of 4.8x or almost 2x the UK market of 5x. The US has five 'impossibly unaffordable' markets compared to Australia's three, which shouldn't surprise given the US has a population almost 13x greater than here. China, Hong Kong more specifically, is the only market that's more expensive than Australia.

The other thing to note is there isn't one city in any country which has a property market deemed affordable. Singapore is the most affordable market, though 78% of the population lives in public housing.

The next chart shows how house prices have exploded across all the countries over the past few decades.

The jump in the median multiple of Australia is something to behold. In 1987, the price-to-income ratio here was just 2.8x. Even in recent years, the multiple has also seen a tremendous uplift, from 6.9x in 2019 to 9.7x now.

The chart shows that back in 1987, every country's housing was considered affordable, under a 3x median multiple.



Other nations have seen an increase in their median multiple over the past four decades, yet Australia's uplift has been the greatest by far. The report suggests that it isn't just one city that's making Australia unaffordable. Even our most affordable market is still well above other countries.

Home ownership rates don't explain why Australia prices are so much higher than most. Our home ownership rate of 66% is about average across the different countries.

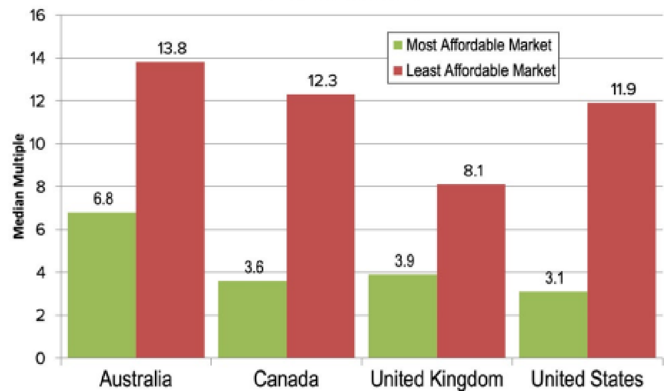
Drilling down into Australia

Sydney is the least affordable market in Australia, with a median price-to-income ratio of 13.8x. That multiple also makes it the world's second least affordable city, behind Hong Kong. It's not unusual for Sydney to be considered expensive on a global basis, as it's been in the top three least affordable cities in 15 of the last 16 years, according to the report.

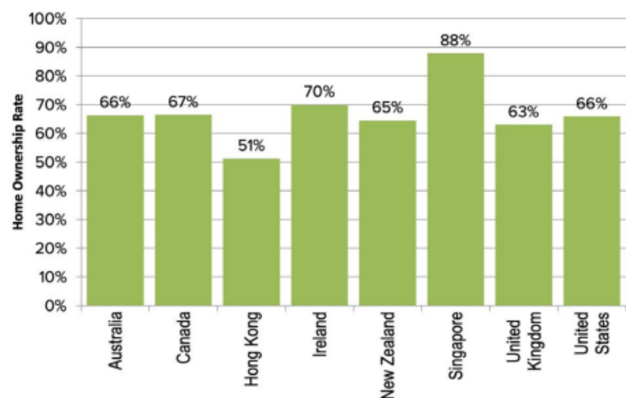
Melbourne is the second most expensive city in Australia, with a median multiple of 9.8x. Adelaide rounds out the list of Australia's 'impossibly unaffordable' cities, with a median multiple of 9.7x.

Brisbane and Perth are less expensive, though still considered 'severely unaffordable', with price-to-income multiples of 8.1x and 6.8x respectively.

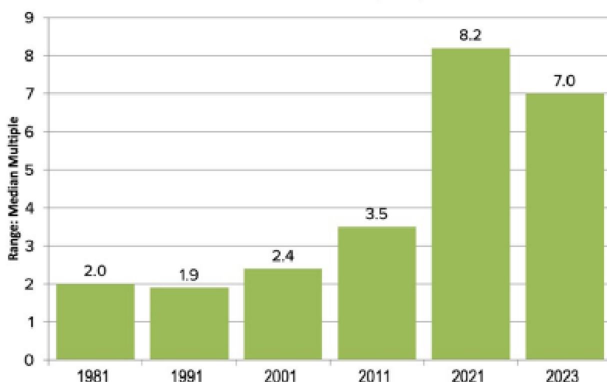
The report also notes that the gap in affordability between Australian cities has widened in recent decades. In 1981, the gap between the least affordable city and the most affordable was just 2 median multiple points, whereas today it's 7.



Source: Demographia International Housing Affordability 2024 edition



Source: Demographia International Housing Affordability 2024 edition



Source: Demographia International Housing Affordability 2024 edition

Least affordable markets

Ranking	Nation	Metropolitan market	Median multiple
1	China	Hong Kong	16.7
2	Australia	Sydney	13.8
3	Canada	Vancouver	12.3
4	US	San Jose, CA	11.9
5	US	Los Angeles, CA	10.9
6	US	Honolulu	10.5
7	Australia	Melbourne	9.8
8	US	San Francisco, CA	9.7
9	Australia	Adelaide	9.7
10	US	San Diego, CA	9.5

Source: Firstlinks, Demographia International Housing Affordability report

Australia has three of the least affordable cities in the top 10.

Explaining the global rise in house prices

The report doesn't hold back on the housing affordability crisis across the developed world. First, it suggests current struggles with high costs are rooted in high prices for housing:

"Middle-income households face rapidly escalating housing costs, which is the primary cause of the present cost-of-living crisis. For decades, home prices generally rose at about the same rate as income, and homeownership became more widespread. But affordability is disappearing in high-income nations as housing costs now far outpace income growth."

As to a cause for higher house prices, the report is pointed:

"The crisis stems principally from land use policies that artificially restrict housing supply, driving up land prices and making homeownership unattainable for many."

It says the solution to the crisis lays in increasing land supply:

"Urban containment policies (greenbelts urban growth boundaries, densification) are designed to limit sprawl and increase density. While well-intentioned, these policies severely constrict the land available for housing. In constrained markets, higher land values translate to dramatically higher housing prices…

The housing crisis demands prioritizing [sic] the well-being of people over abstract planning ideals. The planning orthodoxy, while aimed at improving cities, has worsened affordability. This undermines the economic opportunity essential for thriving middle-and lower-income households."

The New Zealand experiment to making housing affordable

The report lauds New Zealand for its efforts to try to address housing affordability issues:

"New Zealand provides a hopeful path forward. Recognising the crisis is rooted in high land values, new policies are proposed to open up sufficient land to accommodate demand."

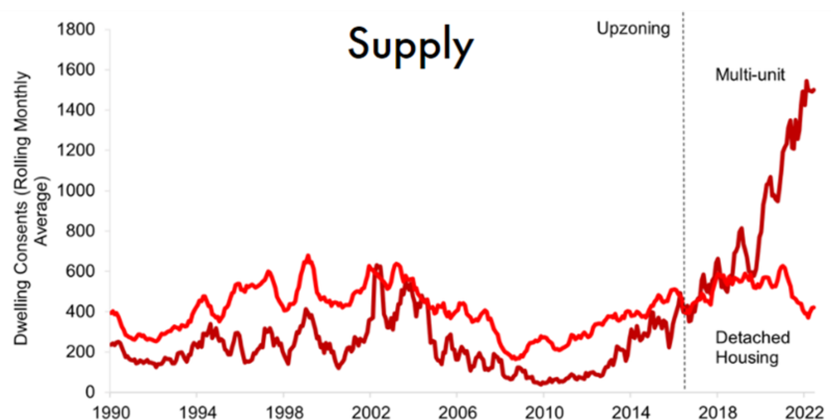
The report's applause for New Zealand's policies is somewhat odd given these policies have primarily promoted greater medium-density housing – something that Demographia doesn't favour to address housing shortages.

In 2016, Auckland upzoned about three-quarters of its residential land area under the Auckland Unitary Plan. In this case, upzoning meant abolishing single-family zoning to allow for multi-unit housing. It also involved changing zoning laws to allow high density housing around transit corridors.

The encouraging signs from the Auckland moves has resulted in New Zealand rolling out sweeping legislation to allow medium-density housing across all the country's major cities.

So, how successful have the Auckland reforms been? It's undoubtedly led to a large increase in new dwelling starts, most of which have been multi-unit dwellings. Academic studies show that the housing stock was 4% more than it would have been without the policies from 2016 to 2020.

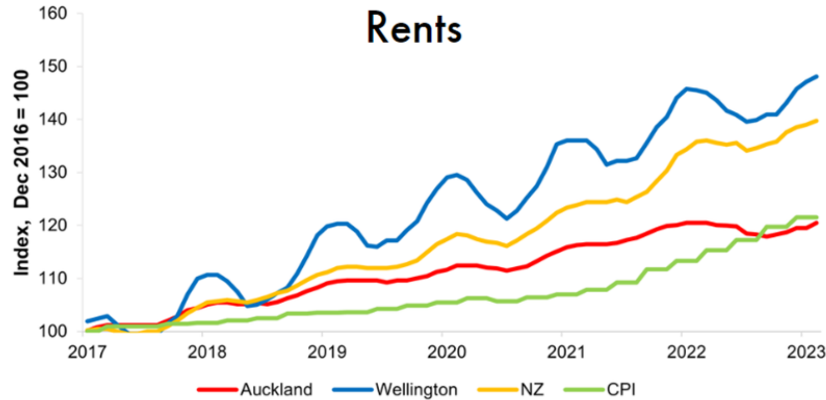
The location and composition of builds has also changed. In 2015, two out of three housing permits were issued in the inner suburban areas. Five years later, the figure was 6 out of 7.



Source: https://www.stats.govt.nz/information-releases

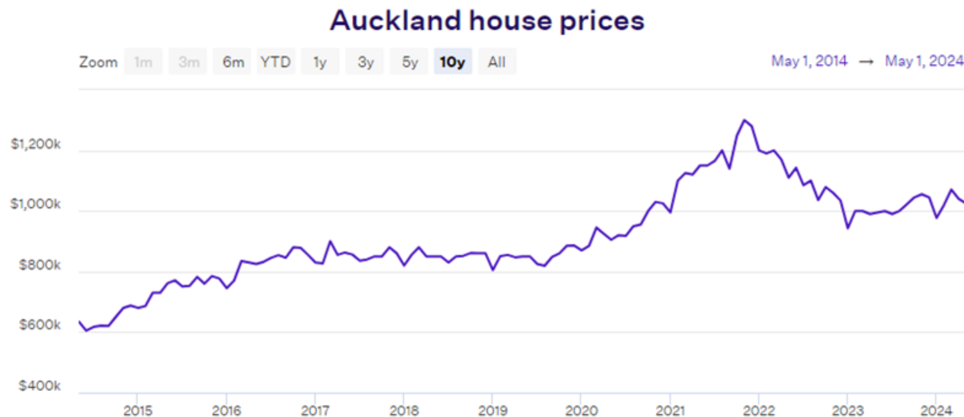
Interestingly, upzoned properties have increased in value in Auckland more than non-upzoned houses. That shows the market has 'rewarded' the upzoning option by ascribing it greater value.

Meanwhile, rents in Auckland have declined in real terms since 2016. They trailed the rental growth of other major New Zealand cities by some way.



Source: https://www.tenancy.govt.nz/about-tenancy-services/data-and-statistics/rental-bond-data/

House prices in Auckland have fallen sharply since peaking at NZ$1.3 million in November 2021. However, the fall came after a tremendous increase during the pandemic.



Source: Opes Partners

The jury is still out on the success or otherwise of Auckland's reforms. They've certainly increased supply and seem to have stabilised rents. Whether they've impacted house prices is open to debate. The pullback in Auckland's house prices since 2021 has coincided with a large rise in interest rates, so it may not just be increased supply that's caused these price falls.

A fuller picture will emerge in coming years as the zoning changes take effect across other cities.

James Gruber is an assistant editor at Firstlinks and Morningstar.com.au.

The catalyst for a LICs rebound

Andrew Mitchell, Steven Ng

Australian Foundation Investment Company (AFIC) is the largest Listed Investment Company (LIC) or Trust (LIT) on the ASX (ASX:AFI), with a market cap of around $9 billion. It's also the most liquid and oldest (listed in 1936!).

The fund has an enviable, very-long-term outperformance track record.

Since the late 1980s, AFIC has traded on an average *premium* to Net Tangible Assets (NTA) of +1.8%. That premium reached nearly +20% in 2022.

Yet AFIC now trades at a 7-7.5% *discount* to NTA, putting it in the lowest 5-10% of its discount-premium range in AFIC's history.

So, what gives? Why such a historically big discount? And what does that mean for the outlook for other listed funds?

An alternative explanation

Investors give several reasons for LIC/LIT premiums and discounts, including:

1. Supply and demand
2. Size of the LIC or LIT
3. Liquidity of the fund
4. Investor sentiment
5. Market direction
6. Investment performance

But so many of these reasons fail to explain AFIC's historically large discount.

AFIC is a large, liquid fund, with good recent one- and five-year performance. The Australian large-cap-dominated index (ASX200) is within a whisker of all-time highs, so we have a fairly bullish market.

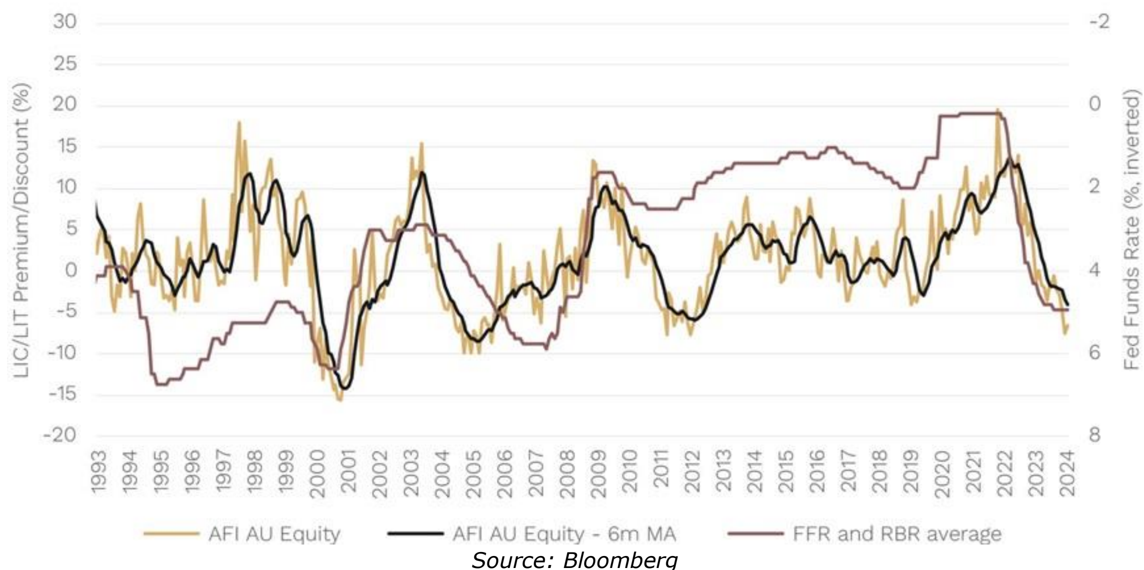
What else could explain AFIC's historically high discount?

We think it's interest rates.

Below, you can see the premium and discount of AFIC on a monthly (orange line), and six-month moving average basis (black line), since the early 1990s.

We have added a red line, which is the average of the US Federal Reserve's Fed Fund Rate and the Reserve Bank of Australia's Cash Rate, inverted.

Chart 1: LIC/LIT premiums/discounts move with rate hikes/cuts



Source: Bloomberg

It's clear: lower interest rates (a higher red line) have been associated with higher premiums to NTA … and higher interest rates (a lower red line) have been associated with higher discounts to NTA.

Managing OPH's big discount

Our Ophir High Conviction Fund (ASX:OPH) has been listed on the ASX as a LIT since late 2018.

It has traded as high as a +20% premium, and as low as an -18% discount to NTA. Overall, it has traded close to par with an average discount of -2.2%.

However, like AFIC, it currently trades at a larger-than-average discount, in OPH's case circa -11% at writing.

We, of course, are working hard to help manage the discount, including:

1. Enhanced marketing to make investors aware of the value on offer to investors if they buy the fund at a discount, particularly given it has an attractive +13.1% (net) p.a. NAV investment total return since inception in 2015, versus its benchmark of +9.1% p.a.;
2. Signalling to investors the value we see on offer through us (Andrew and Steven) personally buying units in the Fund recently; and
3. Using the buyback mechanism to buy OPH units in the Fund when we see compelling value on offer.

We have used all three of these since the Fund was listed.

Do interest rates affect discount/premiums for the broader pool of LIC/LITs?

It's important, however, to understand whether other factors that are out of our control, such as interest rates, influence the cyclical nature of the premium and discount for OPH.

OPH has only been listed for a little over five years, so we need to look to longer-running LIC/LITs to see if our 'rates relationship' hypothesis holds, and not just for AFIC.

The evidence strongly suggests it does hold.

Below, we show the relationship between interest rates and the 38 long-only Australian and Global Equity LIC and LITs on the ASX. Though not a perfect relationship, the black line – the average premium or discount on these funds – has broadly moved inversely with interest rates in both the US and Australia[1].

Chart 2: LIC/LIT premiums/discounts move with rate hikes/cuts

Source: Bloomberg

Another way to view this is through the average and median premiums or discounts that have prevailed in the equity LIC/LIT market on the ASX for different Fed/RBA interest rate ranges. We show this below for all 38 equity LIC/LITs from the chart above:

Range for Average of Fed/RBA policy rate	Average Premium/Discount	Median Premium/Discount
0-2%	-4.6	-3.8
2-4%	-6.0	-6.9
4-6%	-8.3	-8.8
6-8%	-12.4	-11.8

Source: Bloomberg. Data since January 1992 and includes premium/discount history for 38 equity LIC/LITs on the ASX using history back to their inception dates.

While premiums are rarer on average for the full contingent of equity LIC and LITs, it is clear, larger discounts do tend to be associated with higher interest rates.

From TINA to TIARA

This is certainly the case today, with the Fed Funds Rate the highest since the year 2000 and the RBA Cash Rate the highest since 2011.

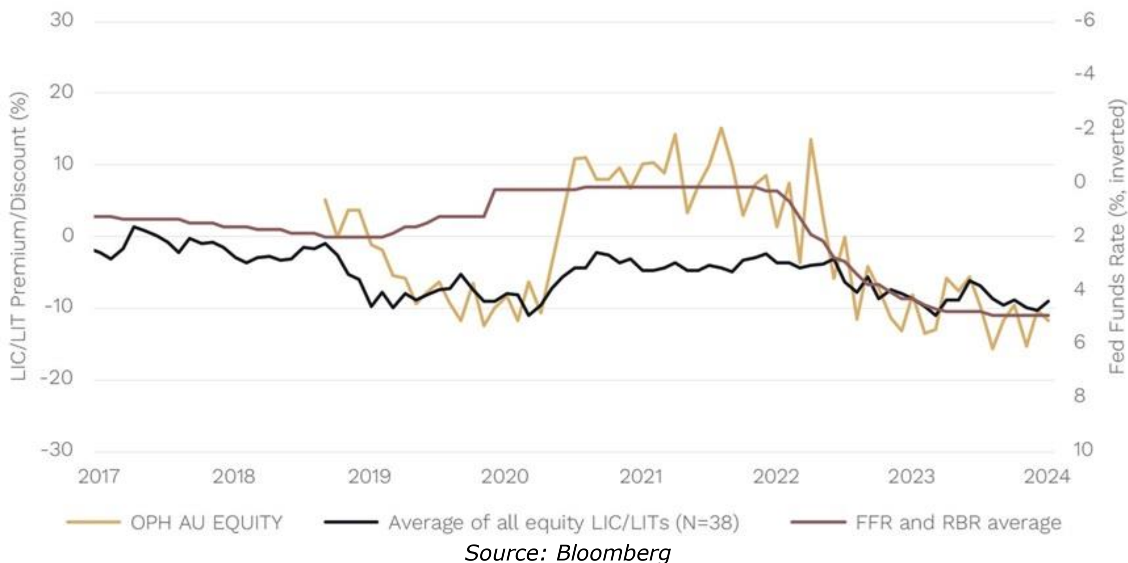
We think it's fair to say that the highest interest rates seen in 10-20+ years in the US and Australia is weighing on LIC/LIT premiums and discounts. That's because higher rates are likely providing an alternative investment to LIC/LITs for some investors, which is impacting demand.

Basically, we have shifted from an interest rate world of 0% during COVID in 2020 and 2021 where the 'TINA' (There Is No Alternative to equities) moniker was in play and many saw shares as the only investment choice to "TIARA" (There Is A Reasonable Alternative) where fixed income and even cash investments have become more attractive again.

The OPH premium and discount has not been immune, as you can see by the yellow line in the chart above.

In the chart below, we have zoomed into the period since OPH listed in December 2018.

Chart 3: LIC/LIT premiums/discounts move with rate hikes/cuts



Source: Bloomberg

It traded at a premium for a few months after listing, but then fell to a discount in 2019 following recent rate hikes in the US[2].

However, when the Fed and RBA cut rates in early 2020, in response to the outbreak of COVID, OPH shot back to a premium, and the average discount for equity LIC/LITs as a whole shrunk.

Later in early-to-mid 2022 both the Fed and RBA (along with other developed economy central banks) starting hiking interest rates in response to 'sticky' inflation pressures.

In some of the fastest rate hiking cycles seen in decades, the OPH premium became a discount, and the average LIC/LIT market discount also began to widen again.

Springtime for LIC/LITs?

So where to from here?

We have made the case that LIC/LIT premiums and discounts in general across the market tend to be cyclical. And that cycle is heavily influenced by the direction and level of interest rates. Rates are by no means the only factor, and other factors can be more meaningful for individual LIC/LITs.

But if history is any guide, interest rate cuts are likely to be a catalyst for LIC/LIT discounts to shrink in general and premiums to widen.

Which begs the question: when is the rate-cutting cycle currently forecast by markets likely to start?

Currently, there is a greater-than-50% chance the Fed will start its cutting cycle in just over three months' time in September. While for the RBA, rate cuts look likely to start in either very late 2024, or early 2025.

It has been a frosty winter for discounts for many LICs and LITs on the ASX in the last year or two.

But summer may be just around the corner.

[1] Policy interest rates in both the U.S. and Australia have broadly moved in line with each other since the early 1990s with coordinated hiking and cutting cycles. The exception is the U.S. Federal Reserve hiking cycle from late 2015 to late 2018 – a period over which the only change by the RBA was 0.5% of rate cuts over six months in 2016.
[2] Proposed franking credit changes by the Opposition Government in Australia in 2019 and arguably an oversupply of LIC/LITs to market also likely contributed to bigger discounts for LIC/LITs during this period.

Andrew Mitchell and Steven Ng are co-founders and Senior Portfolio Managers at Ophir Asset Management, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

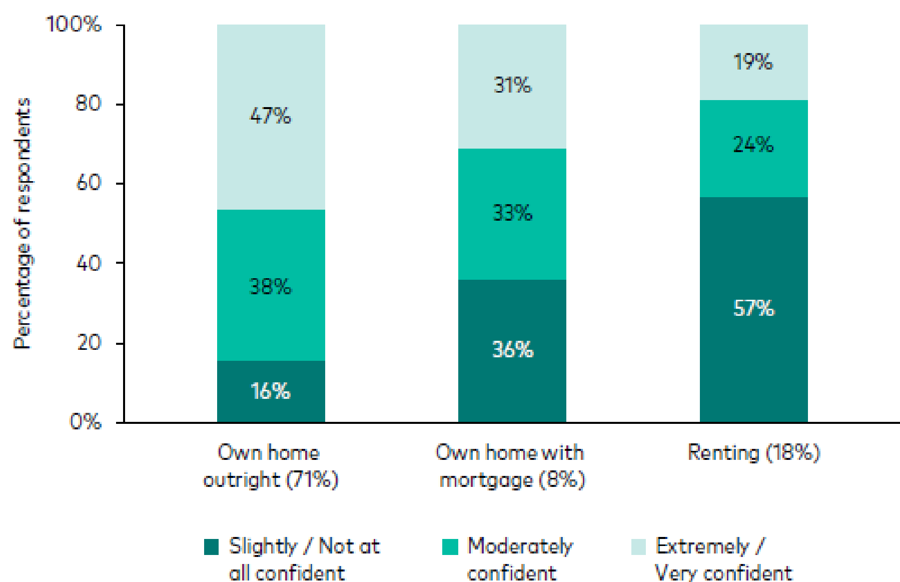
Read more articles and papers from Ophir here.

The new retirement challenges facing Australians

Daniel Shrimski

[Vanguard has released its second annual report called 'How Australia Retires'. It surveyed more than 1,800 people about our attitudes towards retirement and how we feel about this phase of life. Here is an extract from the report.]

Housing, and whether or not it is owned outright, was found to have a material impact on a retiree's retirement confidence level. Of the 18% of retired Australians who are renting their home, more than half (57%) said they were slightly or not at all confident in their ability to fund their retirement. This contrasts with the 71% of retired Australians who owned their home outright, of whom only 16% said they were slightly or not at all confident, suggesting renters are more than 3 times as likely to be of relatively low retirement confidence than those who own their home outright.



Only 8% of retired Australians owned a home but still had a mortgage to pay. Of these retirees, retirement confidence was lower than for those who owned a home outright, but higher than for those who rent.

Role of housing in retirement

Australians have long harboured a strong affinity for property, with 72% of Australians believing that

home ownership is a very important factor that contributes to retirement readiness. In 2019-20, the family home was the largest asset held by Australians households, making up 37% of net household wealth, ahead of superannuation at 22% [1].

Home ownership not only contributes to wellbeing in the form of shelter and security, but it is also a key factor in determining retirement outcomes as housing costs such as rent and mortgages impact retirement wealth. The rate of home ownership however is changing, with particular decline amongst Millennials aged 25 to 39 years old [2].

Australians have a strong emotional attachment to the family home; only 1 in 7 Australians see the home mainly as a source of retirement funding.

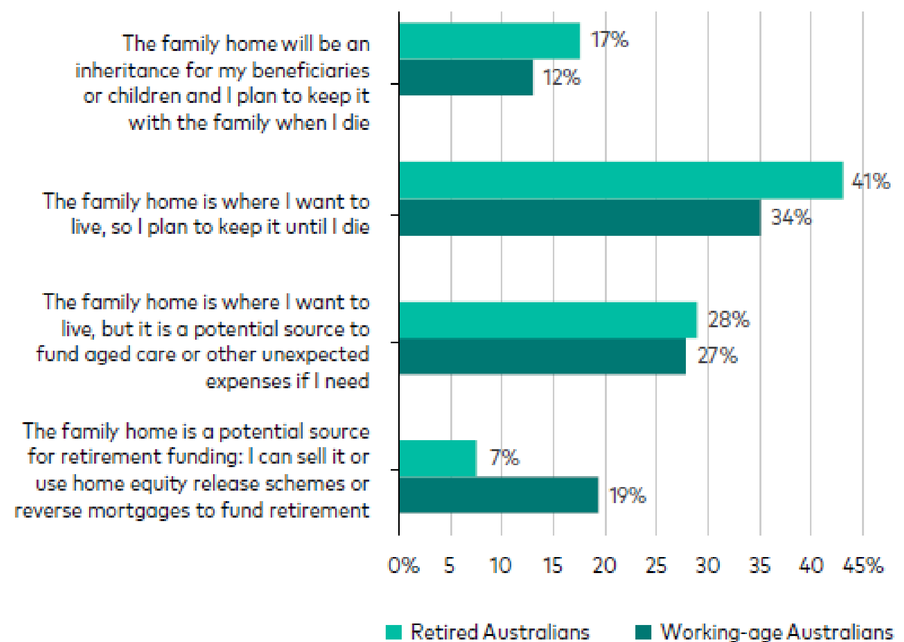
Most Australians believe the family home is where they will age. 34% of working-age Australians and 41% of retirees are most aligned with the statement that "the family home is where I want to live, so I plan to keep it until I die", showing significant emotional attachment to the family home, and highlighting the unique role of housing in retirement assets.

27% of working-age Australians view their family home as where they want to ultimately live, but also believe it can potentially fund aged care or unexpected expenses if needed. 28% of retired Australians believe the same.

19% of working-age Australians view their family home mainly as a source of funding, willing to sell it or use home equity release schemes or reverse mortgages to fund their retirement. In contrast, only 7% of retired Australians echoed this sentiment.

A lower percentage of working-age Australians (12%) than retired Australians (17%) considered their family home as an inheritance for their beneficiaries or children.

How working-age and retired Australians perceive the role of the home in retirement



Note: The percentages sum up to less than 100% as the remainder of respondents selected "unsure" or "prefer not to say".

Most working-age Australians find home ownership likely but 30% still expect to pay a mortgage in retirement.

Positively, expectations amongst working-age Australians of home ownership in retirement are generally high amongst all generations. Compared to older generations, however, Gen Z are the least optimistic about their chances of home ownership in retirement (with 62% finding it extremely likely or likely that they will own a home, compared to 77% of Millennials, 74% of Baby Boomers and 73% of Gen X).

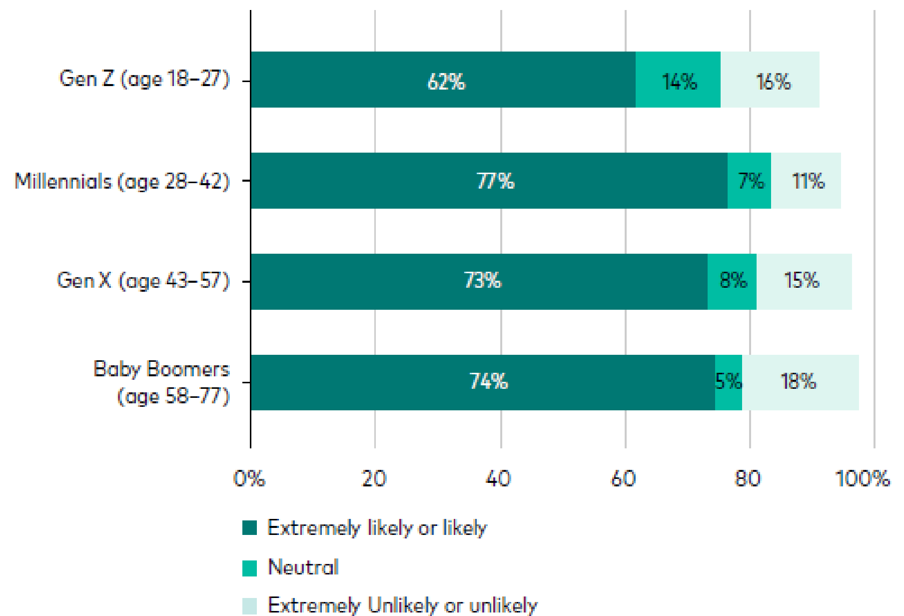
Gen Z is also the generation most likely to believe that they will be paying off a mortgage at retirement, with almost half (45%) of respondents in that generation who expect home ownership citing it is extremely likely or likely that they will still be paying off a loan.

When it comes to Millennials, 29% who either currently own a home or find it likely they will own a home in retirement also believe they will still be paying off their mortgage at retirement.

Perhaps of most concern is 32% of Gen X respondents who currently own a home with a mortgage or expect to own a home in retirement believe it is extremely likely or likely they will still have a mortgage in retirement, despite approaching the traditional age of retirement and therefore likely to have the least amount of time (when compared with other generations) to pay off debts before retiring. When asked about their plan to pay off their mortgage, 38% of these Gen X respondents intend to keep paying their mortgage through retirement and 18% would consider selling their home and using the proceeds to repay their mortgage. 25% of these Gen X respondents have plans to use their superannuation to pay off their mortgage in one transaction.

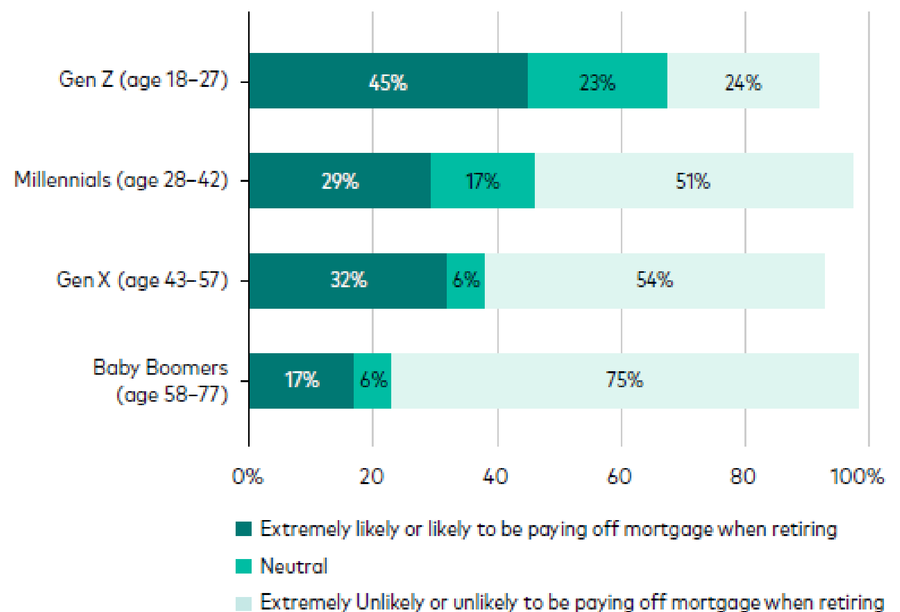
Working-age Australians who believe they are unlikely or extremely unlikely to own a home when they retire are also more likely to not have a clear plan for retirement (55% vs 33% who expect to own a home in retirement) and are also more likely to be of relatively low retirement confidence (55% vs 23%).

Self-assessed likelihood to own a home when they retire by generation, working-age Australians



Note: The percentages of home ownership status sum up to less than 100% as the remainder of respondents selected "unsure" or "prefer not to say".

Working-age Australians' self-assessed likelihood to be paying off a mortgage when retiring, by generation



Note: The percentages of home ownership status sum up to less than 100% as the remainder of respondents selected "unsure" or "prefer not to say". Data reflect responses from the working-age Australians who currently own a home with mortgage and those who think it is likely or extremely likely they will own a home when they retire.

Nearly 1 in 5 retired Australians are renting

Given those who rent in retirement are more likely to exhibit lower retirement confidence than those who own their home outright, a lack of home ownership remains a key issue, considering its impact on retirement savings and financial security.

18% of retired Australians are renting in retirement, and 8% own their home but with a mortgage. The percentage of retirees renting or with a mortgage is significantly higher (31%) for those who are not in a relationship (separated, divorced, widowed or never married) than those with a partner (8%).

[1] 2023 Intergenerational Report published by the Federal Government Treasury, p169.
[2] Australian Bureau of Statistics (20 October 2022), 'Owning a home has decreased over successive generations' [media release].

Daniel Shrimski is Managing Director of Vanguard Investments Australia, a sponsor of Firstlinks. This article is for general information and does not consider the circumstances of any individual. Additional contributors: Junhao Liu, Ph.D., Timothy Smart, Martha Wood, and Sarah Ge.

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Why aren't there more Warren Buffetts?

Joseph Taylor

Warren Buffett is the most studied investor of all time. And with a couple of exceptions, it's hard to find anyone who has studied him as much as Robert Hagstrom. Hagstrom recently appeared on the *We Study Billionaires* podcast and spoke at length about one of the investing world's great mysteries.

That mystery is as follows:

Warren Buffett is widely regarded as the most successful investor ever. Rather than keep the secret sauce locked away, Buffett and his late business partner Charlie Munger have shared their knowledge liberally for decades. What's more, the main principles they preach are rather simple – ignore market folly, buy shares in great companies and let compounding work its magic. The financial rewards of replicating the methods and success of these two men – even 1% of it – would be enormous. And yet despite all of the above, very few investment managers have pulled it off.

Why not? According to Hagstrom, it boils down to psychological barriers as much as anything else.

Barrier 1: The unbearable pain of losing to win

Buffett is the archetype of what Hagstrom describes as a 'high active share' investor. High active share managers are defined by holding portfolios that are very different to the big equity benchmarks. They are often highly concentrated, and this combination naturally leads to big differences in performance versus the benchmark.

Done well, this can bring about a truly impressive track record. The nature of investing this way, though, means that being smart enough to have good investment ideas isn't enough. You also need to be comfortable with losing a lot of the time.

"We looked at the high active share managers in the Warren Buffett Way [his book]. Phenomenal long term track records, but their batting average was about 50%. They outperformed month to month, quarter to quarter, year to year, only 50 percent of the time. The other 50 percent of the time they underperformed."

I recently read some lecture notes from Joel Greenblatt's value investing classes at Columbia and this theme came up again and again. According to Greenblatt, value investing works on average because it doesn't work all of the time – if it did, everybody would do it and it wouldn't work. It also reminded me of the classic Peter Lynch quote about your stomach being more important than your brain.

We hear quotes like this and we nod along. Yet most of us are hard-wired against living up to them.

Hagstrom cites Daniel Kahneman and Amos Tversky's Prospect Theory as the main reason for this. Kahneman and Tversky found that investors feel twice as much pain from losses as they feel joy from equally big gains. For most people, this makes a high active share approach like Buffett's difficult to stomach, even if there is clear evidence of its ability to deliver outstanding relative returns.

I imagine this would be even harder as a fund manager. Not only would you have to deal with your own emotions, but you'd also have to deal with those of your clients and colleagues, too. Buffett has alluded to this advantage over fund managers many times. At Berkshire, he is not investing funds at risk of being withdrawn

by skittish clients. He is investing permanent capital and enjoys the support of a shareholder base that would follow him off a cliff. Of course, it helps that one of those shareholders – with 31% voting power no less – is Buffett himself.

Barrier 2: The power of self-interest

Another reason there aren't more Buffetts out there? Other approaches to investing are deeply entrenched and protected by webs of self-interest.

The big one Hagstrom takes aim at is Modern Portfolio Theory (MPT), which is diametrically opposed to the bumpy returns and concentration of a 'high active share' approach. By contrast, MPT views stock price volatility as the very definition of risk and seeks to eliminate it through diversification.

According to Hagstrom, MPT took hold in the 1970s amid a lack of strong voices championing other investment approaches and definitions of risk. This happened to coincide with a near 30-year secular bull market starting in the US, meaning that prestigious academic careers and huge amounts of assets under management became entwined with this approach.

"Go tell guys that have billions of dollars in modern portfolio theory. Oh, you know that money management practice that is making you millions of dollars a year? That gets you all the luxuries and everything that you want? Oh, you need to shut that down. It doesn't make any sense anymore. No, they're not going to do that. They're going to defend that till hell freezes over."

Even leaving MPT aside, there is little incentive for institutions with huge assets under management to take a highly active approach. At a certain point, the game becomes more about protecting assets under management than swinging for outperformance. In that situation, loss aversion kicks in again and 'closet indexing' becomes far more attractive than a Buffett style approach.

Barrier 3: The difficulty of focusing on what matters

According to Hagstrom, what really makes Warren Buffett different from other investors is what he does not spend time thinking about.

"[Buffett] doesn't think in terms of common stocks, sectors, correlations, diversification. He doesn't think about stock market theories. He doesn't think about macroeconomic concepts. He just thinks about the business. Now, compare and contrast that with an institutional money manager…

The majority of people spend 90% [of their time] pontificating about the market, the economy, geopolitics, the presidential election. Who cares?"

Unfortunately, most investment managers *need* to think about those things. Why? Because that's what their clients are thinking about. As Hagstrom put it, "*9 out of 10 phone calls from clients are going to be asking these questions. You're not going to have a long career if you don't at least contribute something.*"

For some reason, I found the image of Buffett constantly being torn away from Apple's 10-K to answer phone calls asking him about the election quite amusing. But it raises a serious question. Were it not for the unique structure he built for himself at Berkshire, would Buffett also have failed to invest the way he wanted to?

Joseph Taylor is an Associate Investment Specialist, Morningstar Australia and Firstlinks.

Finding joy in retirement

Jon Glass

Retirement can be a wonderful phase of life; and it may last for more than 30 years. That does sound like a long time. This suggests a need for thought and planning to make your retirement great in all respects.

As I write this piece, I have in my mind that you are a person on the verge of, or recently entered into, retirement. Alternatively, you may know someone in that situation: a parent, a friend, or an acquaintance.

Many things happen in crossing the bridge from a traditional life of work into retirement.

Here is something obvious: your salary ceases (although you may continue to work part-time and earn some money). You will probably miss the salary.

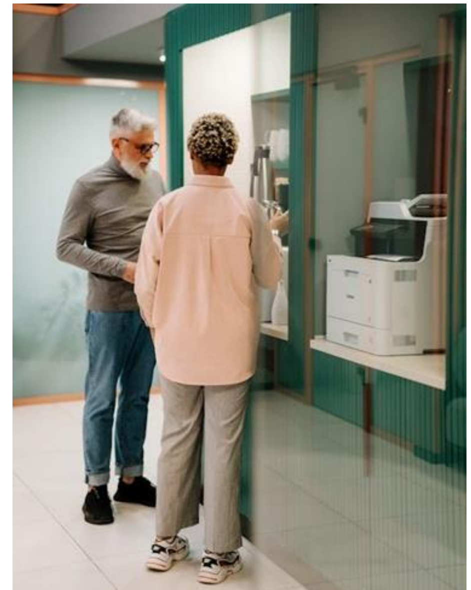
But there is so much more that you can miss as you cross that bridge. I have compiled a long list of aspects of a work life that you might miss. Not all of them will apply to you, so I have made a small selection. I hope some of them ring true.

The items on the list have nothing to do with your finances or your health, rather they are connected to your feelings and emotions. Don't be put off by those two words – feelings and emotions - because, in the end, the list is very practical in nature, as you will see.

For ease of reading, each item on the list will have a section called LOSS and one called GAIN. This will underscore how all of these 'perceived problems' can in fact be resolved.

Let's look at some.

1. Friendship in the workplace



LOSS. You may miss the Monday morning banter around the coffee machine or water cooler. It's amazing how many of my retirement coaching clients feel this so deeply. It seems to come down to a sense of communion, of sharing, both with the people and the environment at work. This leads more generally into how you can replace the friendships you made at work.

GAIN. You can make up for this loss. For example, what about renewing some old friendships? You could make an archaeological dig back to your schooldays or review your work life to find people you have fallen out of contact with. Additionally, you can join clubs, take courses, pick up a hobby, all of which can offer you the sociability of others.

2. Your identity or who you are

LOSS. What about your identity? This is a biggie, so let me explain. When you worked you could easily define what you did each day. Perhaps you had a business card, or a uniform or something else that defined you and made your job recognisable to others.

GAIN. In retirement you have the opportunity for a renewed definition of yourself. Will you be happy with what is called the 3G approach to retirement: golf, gardening and grandparenting? If so, then good for you. If not, then I doubt you'd be satisfied with the identity 'retired person'. What then? Now we are getting to the essential help that a retirement coach can give. This concept of identity is central to my practice of retirement coaching.

3. Status and relevance

LOSS. Your work may have given you some status and relevance to others. Post-work loss of status can show up as 'Relevance Deprivation Syndrome' or RDS for short. You may feel that suddenly you're not as important to others as you once were. That can hurt.

GAIN. If RDS looms as a problem, then you could think about getting involved in charitable works of some kind. By engaging in charitable work, you will be important to the people you serve as well as those people you work with. There are lots of those opportunities out there if you search for them.

4. Expertise and validation

LOSS. This is one of the more surprising aspects of what you might miss from work. Then again, it is obvious. You worked in your job because you were good at it, and because you were good at it, people sought your help, and because they sought your help (and you gave it) you felt a positive vibe of validation. Hence you felt valued.

GAIN. How can you carry this across the bridge into retirement? I would say reflect more deeply about why you were appreciated at work. It may be that fellow workers appreciated your patience or your generosity or some

other emotional aspect of your personality. Once you identify this you can dream up an activity based on that emotion for your retired life.

5. Routine and structure

LOSS. Many retired people take joy in jettisoning the routine and structure that work imposed on them. I believe it's more complex than that. Most of us crave some level of order in our lives. Would you really want to begin each of your 10,000 days of retirement in complete freedom to decide the order of the day? I don't think so. The issue at stake here is more about how much say you have in that routine.

GAIN. Once you have established your meaning and purpose in retirement you will end up with a portfolio of activities. Certainly, that is the end point to which I lead my clients. Now you can impose a structure around those activities. Your structure, your routine. Remember you will be your own boss in retirement.

Dr Jon Glass is a Retirement Coach at 64PLUS.

Bull and bear case for Australian equities for FY25

Vinay Ranjan

It's coming to that time of year when equity market strategists and the financial media will start issuing their forecasts for the performance of the stock market in FY25. Airlie's view is to ignore them. Their predictions (like most predictions) are usually wrong.

Consider the past few years. Had investors been presented with a list of all the challenges global markets could face over the past five years (in advance), many might have chosen to sit on the sidelines and reduce their exposure to equities.

The list below (while not exhaustive) is a reminder of some of these challenges:

- FY20 – COVID-19 pandemic shuts down many parts of the economy and sees cuts to interest rates globally.
- FY21 – COVID-19 crisis continues as states implement various degrees of lockdown. Similar disruptions globally morph into a supply-chain crisis.
- FY22 – Russia invades Ukraine and inflation fears emerge.
- FY23 – Central banks, including the Reserve Bank of Australia (RBA), embark on an aggressive rate-tightening cycle.
- FY24 – Hamas and Israel conflict intensifies and inflation moderates but remains sticky and above central bank targets.

Despite all these events, global equity markets have risen. The S&P/ASX 200 Accumulation index (which includes dividends) has delivered a total return of 47% or 8% per annum [1].

In our view, the past five years have shown that buying and selling stocks based on a view of the market's impending movements is a fool's game.

In this article, I'll avoid predicting where the market is going to be in 12 months and instead focuses on three reasons for investors to be bullish on Australian equities in FY25 and three reasons to be bearish.

Bull case for Australian equities

1. Corporate balance sheets in good shape

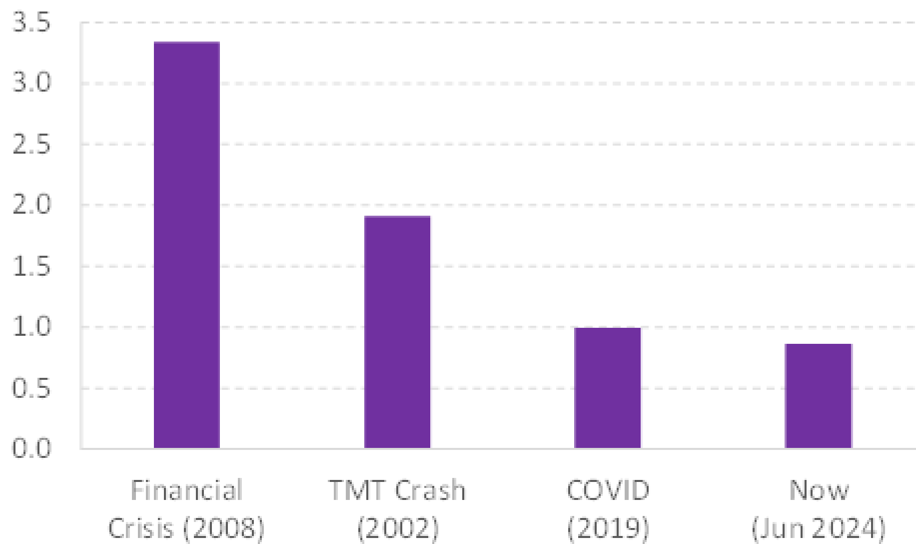
Many Australian investors have lived in a period of declining and ultra-low interest rates. Before the RBA's first interest-rate hike in May 2022, the public had not experienced an increase in interest rates since November 2010, and that cycle only saw the cash rate increase from 3% to 4.75%. To find a rate-hiking cycle of equivalent magnitude today, investors would have to go back more than 30 years.

The rise in interest rates over the last two years could be seen as a reminder for investors of the opportunity cost of capital and the value of conservative capital structures.

Our view is that when rates were low, debt was considered 'free' and helped prop up risky companies as investors chased greater returns in speculative companies, while other companies were encouraged to take on

large amounts of debt to fund acquisitions and growth with no consequence of increasing financial risk. This era of 'free money' is over and balance sheets now matter.

And, corporate balance sheets across the ASX 200 in general look in good shape. The chart below shows the leverage ratio of the average industrial company in the ASX 200 today versus previous economic cycles. At less than 1.0x Net Debt/EBITDA, corporate balance sheets look healthy. They indicate that Australia's largest companies could be well placed to handle any adverse bumps the economic cycle, competitors or internal issues may throw at them.



Source: MST Financial

2. Domestic profit pools often supported by a handful of players

In contrast to other global markets, the size of Australia's population and its distance from the rest of the world has resulted in several domestic industry oligopolies with substantial barriers to entry. The smaller population in particular means industry profit pools often cannot support a third or fourth entrant. Some notable oligopolies include:

1. The grocery sector, where two major supermarket chains account for about 65% of the market. Contrast this with the UK, where the top two grocers account for 43% of the market, and the US, where the four largest supermarket chains have a combined share of 34% [2].
2. The airline sector, where our national carrier, Qantas Group (ASX:QAN) (including Jetstar), has a 62% share of domestic air travel [3]. This has possibly been enhanced following news that recent market airline entrant Bonza has gone into voluntary administration.
3. The banking sector, where the four major banks account for over 70% of the home-loan market in Australia [4].

This concentration can potentially be a positive for investors in large-cap Australian equities in that they can put their money behind industry-leading companies that have a low risk of being disrupted by competition. Historically these businesses tend to have a track record of stable returns and market-share gains versus their smaller rivals.

3. Australia's place in the world only getting better

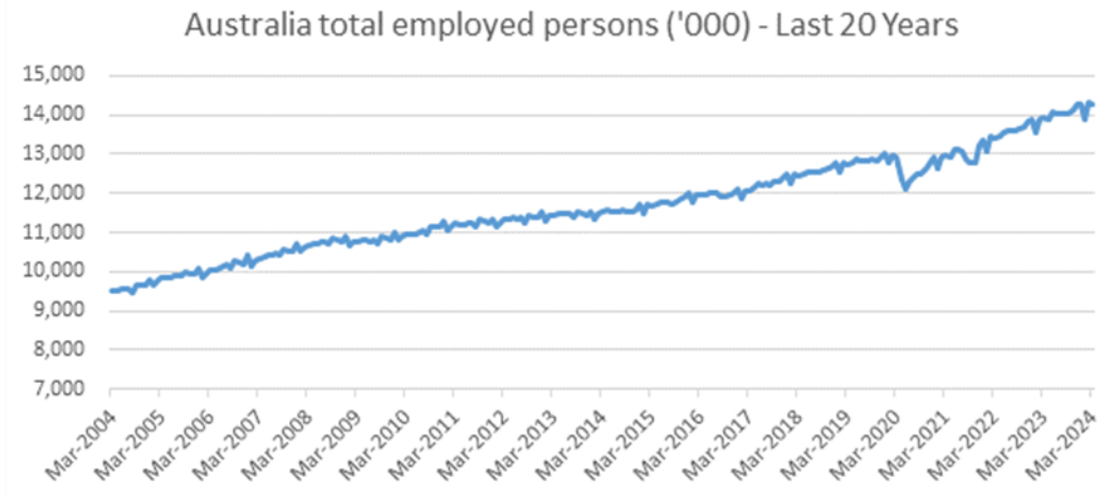
When we look through a global lens, Australia has a lot going for it – a beautiful place to live, a safe, strong rule of law, and high-quality education.

Even the much-grumbled-about house prices still mean some people can buy a house and not a shoebox apartment in capital cities. Australia continues to attract people and capital, both providing a long-term tailwind for the economy.

This is best reflected in Australian Bureau of Statistics (ABS) data (see charts below) showing that compared to pre-COVID-19, an additional 1.35 million people are employed in the country (a 10% increase) [5]. This

compares favourably to other developed economies like the UK, where the total labour force has increased by just 1% over the same period [6].

The growth in employed persons translates directly into spending and this has provided a tailwind for Australia's consumer-facing sectors despite cost-of-living pressures. Total retail sales have increased by 30% over the last five years [7]. According to Airlie, the looming tax cuts for individual workers in Australia in FY25 are likely to bolster retail spending and support those companies relying on the domestic consumer.



Source: ABS

Source: ABS

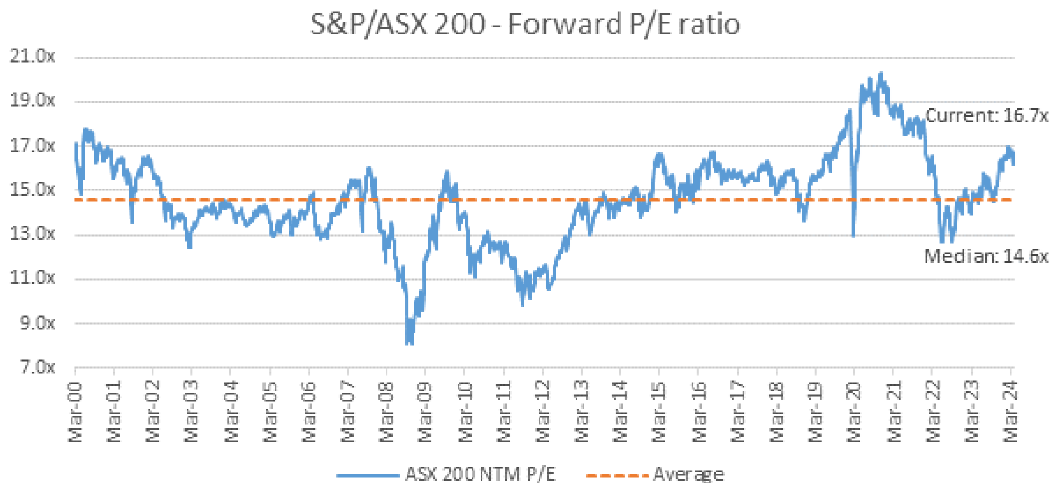
The bear case for Australian equities

1. Valuations for publicly listed companies have re-rated higher

In our view, higher company valuations reduce the prospect of near-term upside for investors. The rally in equity markets over the past 12 months reflects a level of optimism about 'peak' interest rates and the need to see further evidence for the market to continue re-rating higher.

The ASX 200 is currently trading above its long-term median Price Earnings multiple of 14.6 times [8]. This suggests that companies in general are valued positively and it's clearly not the 'cheap' market witnessed in March 2020 and July 2022 (see chart below).

Within this aggregate, however, there may still be individual businesses that look attractive, and investors could have to dig for mispriced opportunities.



Source: FactSet

2. High cost of living is gaining political attention

As mentioned, concentrated domestic oligopolies can potentially be good for investors. But in an environment where consumers are under pressure, some oligopolies could come under threat from politicians.

For example, there have been recent accusations of profiteering levelled at the domestic supermarkets. It would not be a surprise if the government turned its attention to other concentrated sectors, so as to be seen to be tackling the cost-of-living crisis. Even if there is no immediate change to regulation of these sectors, Airlie has seen this kind of political pressure can hurt returns as companies respond by pulling back on pricing power.

3. Sticky inflation

Interest rates may well remain elevated, or worse – they may even increase in the coming year. The optimism embedded in sharemarket valuations is predicated on a narrative of peak rates. Any evidence of inflation persisting above the RBA's target range of 2-3% may lead investors to reprice securities lower to reflect a higher cost of capital.

To date, the Australian economy has been strong with elevated migration and record-low unemployment supporting demand. And on the supply side, the cost of the energy transition and the restructuring of global trade (away from China) could continue to act as inflationary forces that may well be structural.

Conclusion

While I don't have a crystal ball for what 2025 will have in store for the Australian sharemarket, investing in companies with strong balance sheets, and that are market leaders with pricing power, should help drive returns over the long term. Attempting to profit from a view of the market's ups and downs in what has otherwise been an upward journey is likely to detract from returns rather than add to them.

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[1] FactSet – ASX 200 total return 5 years to 3 May 2024
[2] Independent Review of the Food and Grocery Code of Conduct 2023-24 – Consultation Paper (February 2024)
[3] ACCC Report – Airline Competition in Australia (March 2023)
[4] Commonwealth Bank of Australia 1H24 Results Presentation
[5] ABS 6202 – Labour Force, Australia (Total employed persons – original) March 2024
[6] Office for National Statistics – Employment in the UK
[7] ABS 8501 – Retail Trade, Australia (Retail Turnover by Industry Group) March 2024
[8] FactSet at 10 May 2024

Vinay Ranjan is a Senior Equities Analyst at Magellan-owned, Airlie Funds Management. Magellan Asset Management is a sponsor of Firstlinks. This article has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not consider your investment objectives, financial situation or particular needs. For more articles and papers from Magellan, please click here.

How gold can help diversify your portfolio

Ray Jia

Gold has performed well so far in 2024. In fact, the year-to-date return of 16% makes gold, in Australian dollars, one of the best-performing assets locally and globally (Chart 1). Strong central bank purchases, spikes in geopolitical risks and investor bullish positioning have pushed gold further into all-time-high territory.

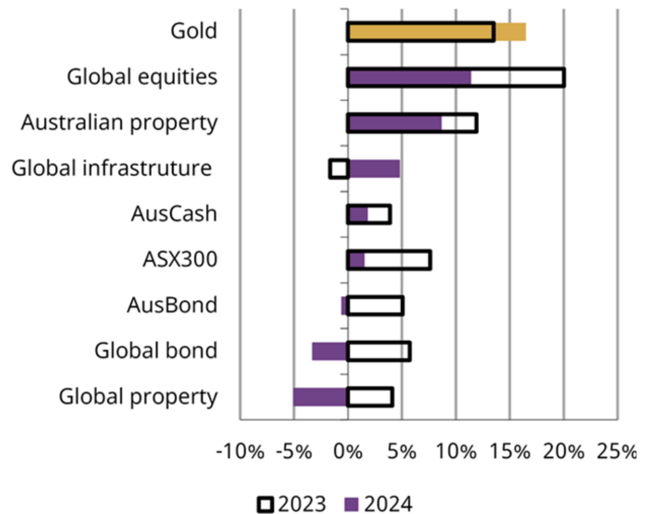
As gold has reached record highs in recent months, a common question from investors is: "*Has gold run its course and, if not, when would be a good entry point?*"

While demand drivers remain supportive of gold, an equally important question at present for Australian investors is – "*How is your portfolio set up for 'higher for longer' inflation and rates?*"

Inflation has come down in Australia, but not at the pace the Reserve Bank of Australia (RBA) expected. According to the latest information, inflation grew by 3.6% y/y in Q1, slightly higher than the consensus expectations of 3.4%.[1] Similarly, both core CPI (excluding food and energy) and the trimmed mean measure for Q1 also came in above expectations.

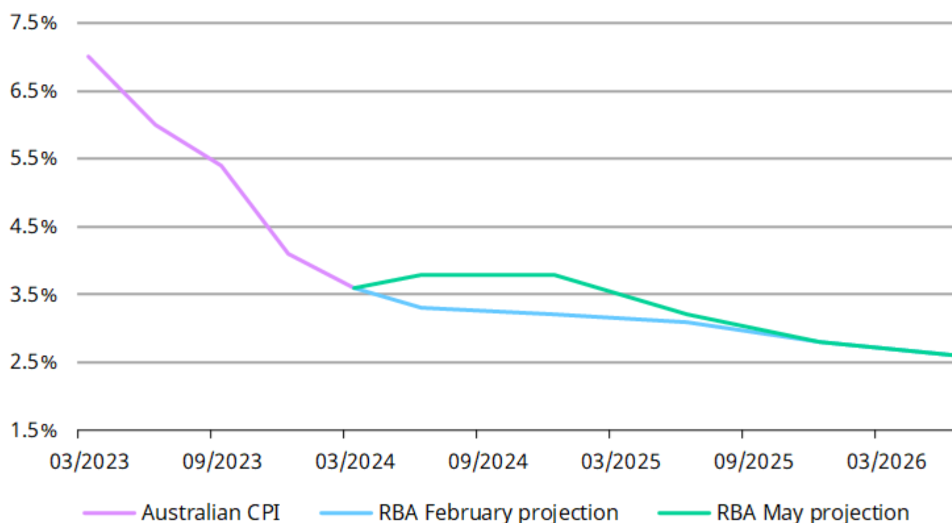
At its May meeting the RBA revised its inflation projections higher (Chart 2) citing the stronger labour market and higher petrol prices as main drivers.[2]

Chart 1: Gold outperformed in 2024
Major asset performances (in AUD) in 2023 and so far in 2024*



**As of May 2024. Based on LBMA Gold Price PM, MSCI World Index, ASX REITs Index, Bloomberg AusBond Bank Bill Index, ASX300 Index, FTSE Global Infrastructure Index, Bloomberg AusBond Composite Index, Bloomberg Global Agg Index and FTSE Nareit Developed Index. All calculations in AUD. Source: Bloomberg, World Gold Council*

Chart 2: The RBA is re-thinking inflation prospects
Quarterly Australian CPI and the RBA's projections after Q1*



**As of May 2024. Based on RBA projection at their March and May meetings. Source: Bloomberg, World Gold Council.*

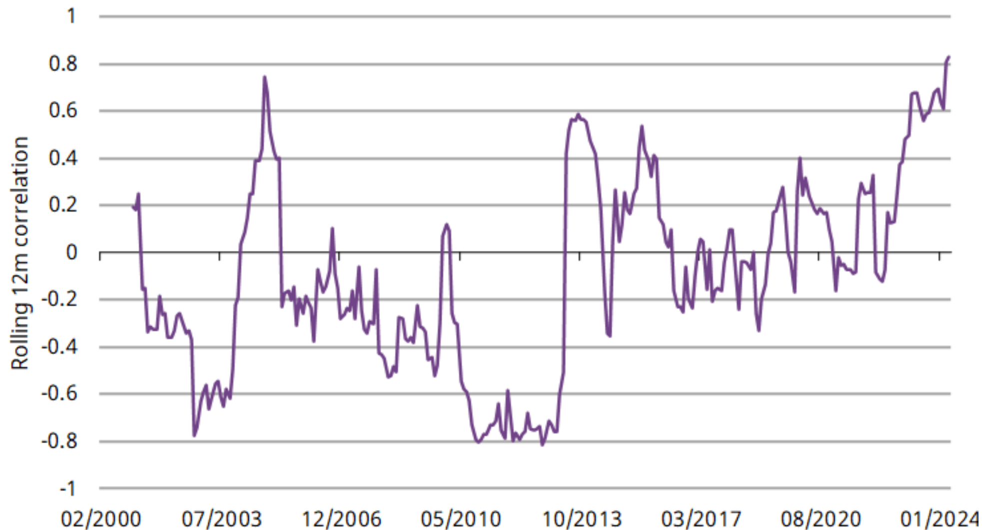
This has raised concerns about the effectiveness of the RBA's current disinflation efforts, leading local investors to intensify their expectations that rates will stay higher for longer.

Implications for local portfolios

The combination of high inflation and elevated interest rates has led to a rising correlation between Australian equities and bonds over past years (Chart 3). As interest rates climb, bond prices fall and equities suffer due to

a lower net present value of future earnings discounted by a higher rate. And rising inflation erodes the real value of both bonds and equities.

***Chart 3:** Australian equities and bonds are now moving in the same direction*
*Rolling 12-month correlation between Australian equities and bonds**

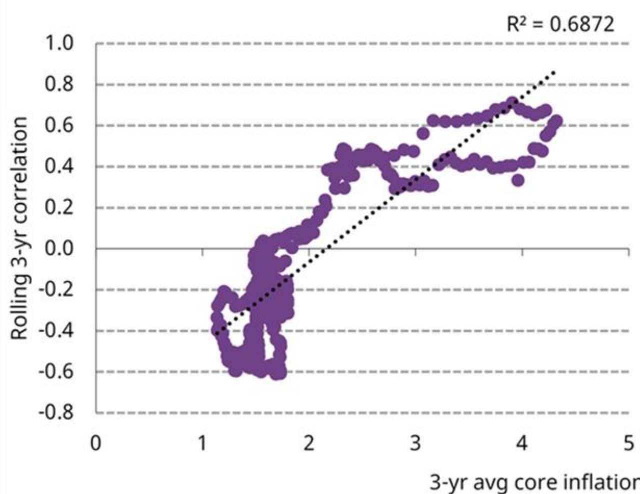


**As of May 2024. Based on monthly returns of ASX 300 Index and Bloomberg AusBond Composite Index. All calculations in AUD. Source: Bloomberg, World Gold Council*

And the elevated inflation weakens the appeal of bonds as a diversifier (Chart 4). At inflation levels below 2%, the correlation between global equities and global treasuries has been negative, providing diversification. But at levels above 2%, this relationship starts to break down.

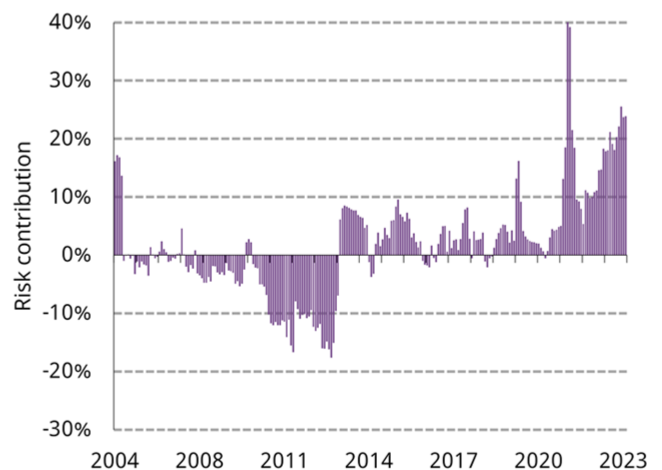
A positive correlation between bonds and equities undermines the value proposition of bonds as a portfolio diversifier. And it results in Australian bonds contributing a much larger share of total portfolio risk (Chart 5).

Chart 4: Sticky inflation comes with elevated correlation between bonds and equities in general
Conditional rolling 3-year correlation between global stocks and bonds*



**Based on monthly returns of MSCI World Index, Global Treasury Bond Index and G7 Core Inflation between January 1990 and May 2024. Source: Bloomberg, World Gold Council*

Chart 5: Bond's risk contribution to the portfolio has been surging
Risk contribution of bonds in a 60/40 portfolio*



**Based on monthly returns between January 2000 and May 2024. The hypothetical portfolio assumes a 60% allocation to ASX 300 Index and a 40% allocation to Bloomberg AusBond Index. Risk contribution is calculated as: asset weight X asset volatility X asset correlation with the portfolio. Source: Bloomberg, World Gold Council*

Looking ahead, rates are not likely to go much higher. This may improve the return prospect of fixed income assets. But risks exist: persistent inflationary pressures remain the primary obstacle to monetary easing.

The lessons here are twofold:

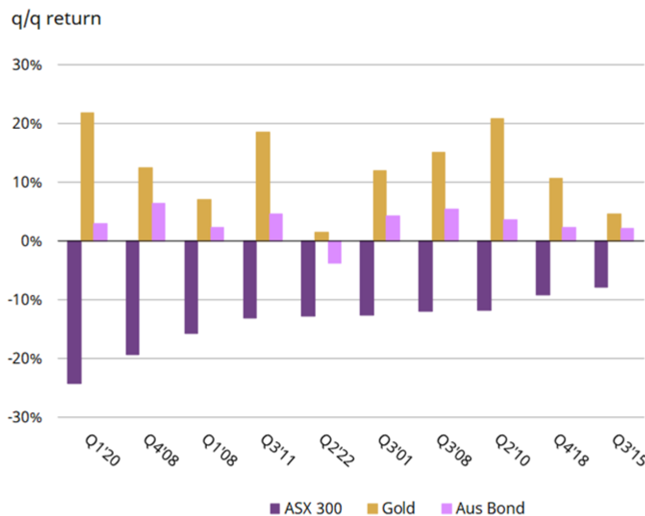
- the contribution to portfolio risk from bonds is now much greater
- there is no guarantee that bond and equity correlations will turn negative again or remain stable, particularly considering the potential for inflation volatility.

It is important, therefore, to have assets that can help in these scenarios rather than relying solely on government bonds as a portfolio diversifier.

Gold as a shining diversifier for Australian investors

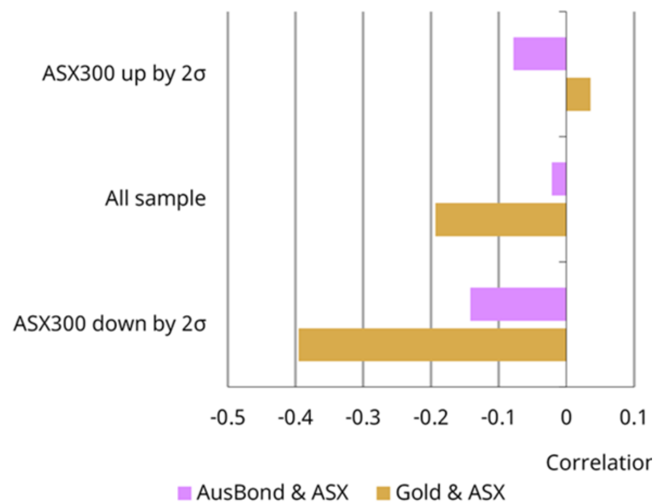
Gold has been an effective diversifier for equity risks. Our analysis shows that gold, in AUD, held up well and provided attractive returns when local stocks suffered the most severe pullbacks in history (Chart 6).

Chart 6: Gold has provided positive returns during Australian equity market pullbacks
Performances of gold and bonds during the worst ten quarters of Australian equities*



**Based on quarterly returns of Bloomberg AusBond Composite Index, ASX300 Index and LBMA Gold Price PM in AUD between January 2000 and May 2024. Source: Bloomberg, World Gold Council*

Chart 7: Gold offers the correlation investors want
Correlations of gold and bonds with Australian stocks over the past 30 years*



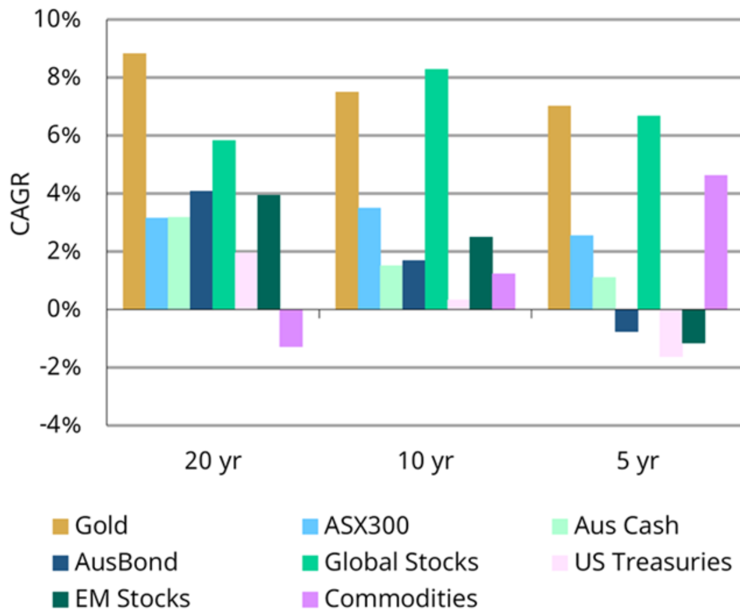
**Based on weekly returns of Bloomberg AusBond Composite Index, ASX300 Index and LBMA Gold Price PM in AUD between May 1994 and May 2024. Source: Bloomberg, World Gold Council*

But we understand that consistent negative correlation is not the Holy Grail for investors. While it protects investor portfolios in market downturns, it can also undermine overall gains. As such, it is important to highlight gold's unique relationship with equities: providing downside protection and sharing upside potential (Chart 7).

And this unique characteristic stems mainly from gold's diverse drivers: it fulfils both safe-haven demand and wealth expansion needs in its capacity as a financial asset and a consumer good.

Our research shows that investors can benefit from taking a longer-term strategic view when it comes to gold. Looking beyond gold's short-term performance, historical data shows that it has provided a 9% average annual return since 1971 in AUD (Chart 8). And with geopolitical risks spiking more frequently, and central bank gold purchases extending, we are confident that gold will remain an important strategic component of modern portfolios.

Chart 8: Gold has provided attractive long-term returns
Gold and other major asset performances during different periods*



*As of May 2024. Based on LBMA Gold Price PM, MSCI World Index, MSCI EM Index, Bloomberg AusBond Bank Bill Index, ASX300 Index, Bloomberg AusBond Composite Index, Bloomberg US Agg Index and Bloomberg Commodity Index in AUD. Source: Bloomberg, World Gold Council

Conclusion

In its recent meeting the RBA revised up its expectations for future inflation, causing investors to anticipate a much higher rate in Australia than previously. The combination of sticky inflation and elevated rates usually leads to increasing correlation between bonds and equities. As inflation is likely to remain stubbornly elevated, the correlation between bonds and equities could remain high, reducing diversification within portfolios.

We believe it is important for investors to utilise gold's role as an effective diversifier – across various rates, inflation, and volatility environments. While gold provides downside protection when equities pull back as a safe haven, it also benefits from economic prosperity when stocks rise through consumer demand.

Gold's attractive long-term return combined with its performance amidst geopolitical and macroeconomic uncertainty, make gold a key component of robust investment strategies.

Ray Jia a Senior Research Analyst at World Gold Council, a sponsor of Firstlinks. This article is for general informational and educational purposes only and does not amount to direct or indirect investment advice or assistance. You should consult with your professional advisers regarding any such product or service, take into account your individual financial needs and circumstances and carefully consider the risks associated with any investment decision.

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[1] Based on Australian quarterly CPI as of Q1 2024.
[2] In Brief: Statement on Monetary Policy – May 2024 | RBA

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