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Editorial

Recently, I came upon a book called *Brain Rules for Aging Well: 10 Principles for Staying Vital, Happy, and Sharp*. It's authored by US-based scientist, John Medina, who specialises in human brain development and the genetics of psychiatric disorders.

We all know that our minds and bodies deteriorate as we age. The good news is that our brains are highly malleable. That is, they can change and adapt due to experience. Medina gives an overview of the latest findings in neuroscience, and he writes with humour and good grace, with references to the likes of Captain Kirk and the 'I Love Lucy' show - which I particularly enjoyed.

Here are some of Medina's top tips for keeping our brains sharp as we age:

1. Socialise a lot

I have a seven-year-old son and like most kids, he makes friends easily. It doesn't require much for children to become friends. In my son's case, get any kind of sporting ball out and he's bound to quickly become best buddies with you.

Contrast that with myself. I've known people from work or sport for years and have never bothered to get closer to them and become friends. It seems that as I get older, it almost requires a 20-point checklist for someone to become a new friend.

Medina says be more like my son and not me, because friendships extend lives while loneliness kills them.

He says the latest research reveals three things about loneliness:

- It increases with age. Depending on the study, the proportion of older adults experiencing at least moderate amounts of loneliness is between 20% and 40%.
- It's uneven throughout a person's lifetime, following a U-shaped curve.
- It's the greatest risk factor for clinical depression.

Conversely, socialising is like exercise for our brains. Social interactions take so much energy to maintain that they give you a bona-fide workout. Because of this, they help to reduce stress, which improves your immune system and health.

But the science doesn't just say to spend time with everybody. Overall social interaction levels don't benefit health – it's *the net quality of those interactions that counts.* Note also that face-to-face socialising is deemed best, though video calls with friends is better than nothing at all.

Also, dancing is one of the best forms of socialising that you can do. Many scientific studies suggest it helps cognitive abilities though they can't pinpoint why. Medina suggests it's perhaps a combination of exercise, touch, and face-to-face interaction.

2. Practice gratitude and optimism

The stereotypical grumpy older person isn't generally true, according to the science. Subject to life experiences, most people become happier as they age. They tend to pay more attention to positive things during their day. They are also more likely to remember positive experiences over negative ones. As people age and realise their own mortality, they're inclined to prize relationships, and that makes them happier.

According to Medina, practicing gratitude daily can strengthen these tendencies. For instance, scheduling gratitude visits with people who mean a lot to you. Or each evening, writing down three positive things that happened that day, and looking at the list first thing the next morning.

3. De-stress

It's no surprise that stress is bad for us as we age. Our fight or flight system is designed for short-term stress. Chronic, or long-term, stress increases cortisol, which damages our brains if it hangs around too long.

Medina says mindfulness meditation is one of the best ways to de-stress and help our brains. It can extend our lives by improving sleep and reducing the likelihood of depression and anxiety. Fascinatingly, it can also help our ageing brains to switch between tasks, which makes our brains more efficient.

Many people think of meditation as unproductive, though Medina suggests it's anything but. Though he acknowledges it isn't easy:

"It reminds me of a poster where a serene-looking woman practicing meditation says: "Come on, inner peace, I don't have all damn day!"

4. Learn a demanding skill

Medina says there are many different types of memory. Some get better as we get older, while others go downhill. For instance, working memory (a type of short-term memory) and episodic memory (stories of life events) deteriorate. However, procedural memory (for motor skills) and vocabulary improve.

What can improve memory? Put simply, it's learning and teaching.

Learning a demanding skill is the most scientifically proven way to reduce age-related memory decline. That skill can be:

- Learning a language. Bilingual people perform better on cognition tests – no matter when a language is learned. And those who know three languages outscore those who know two.
- Reading books. One study shows that if older people read at least 3.5 hours a day, they are 17% less likely to die by a certain age compared to those who don't read. Reading books is best, newspaper articles less so.
- Learning a musical instrument.

Teaching has similar effects. Studies show older people who teach elementary schoolchildren basic skills like literacy, library usage, or proper behaviour in the classroom, have dramatic improvements in specific memory functions.

5. Argue with people

In psychology, there are two types of learning: passive and active. Active learning is where you experience a novel idea and actively, even aggressively, engage it. Medina calls this type of learning "the Energizer bunny of memory learning".

He says the best exercise is to find people with whom you do not agree and regularly argue. Studies have shown that active learning has a tremendous impact on episodic memory (memory of life events, as mentioned previously).

That said, having heated arguments may not be to everyone's taste...

6. Play video games

This one is a surprise and something I haven't heard of before. Medina writes of certain video games that can improve your ability to solve problems. They in turn help parts of your brain to stay strong and can aid in preventing dementia.

To be clear, Medina isn't referring to video games such as Fortnite and others that your kids or grandkids might play. Instead, he's referencing special types of games, called brain training programs. Examples include commercially available games such as *Beep Seeker*, *Night Driver*, and *Neuro Racer*.

Studies have shown that these games can reduce the likelihood of getting dementia by up to 48%. The science is too definitive to ignore, Medina believes.

7. Mind your meals and get moving

Exercise improves intellectual vigour, regardless of age. It's especially helpful with executive function – the part of the brain that does everyday tasks.

You don't have to be an Olympian to reap the benefits. As little as walking 2-3 times a week makes a big difference to your brain. Strength training a similar amount each week helps too.

Medina puts it bluntly:

"Those who think they have no time for bodily exercise will sooner or later have to find time for illness."

Eating the right foods improves brain health too. One great statistic he cites: the brain is only 2% of body weight yet consumes 20% of what we eat. Medina advocates a largely Mediterranean diet, with lots of whole grains, vegetables, berries, nuts, and fish.

8. Get enough, though not too much, sleep

New research has found that sleep isn't just to restore energy. It's also so we can learn by consolidating the day's experiences into memories. And, sleep allows waste and clutter (of the mental kind) to be removed from our brains.

Sleep does vary a lot between individuals though as a rule, it gets more fragmented as we get older. That results in waste not being removed from our brains to the same degree as when we're young.

How do we get a good night's sleep? Medina says it's best to start accruing positive sleep habits when younger as it helps reduce cognitive decline as we age. However, it's never too late to improve our sleep:

- Commit to getting 6-8 hours a night.
- Take it easy on the caffeine, alcohol, and nicotine.
- Keep your bedroom dark and cool.
- Dim the lights long before you're ready to go to bed.
- Go to bed at the same time every night and wake up at the same time every day. This means weekends as well!

9. Never retire

Ok, this is a controversial one. According to scientific studies, retirement has the following health effects:

- Memory scores drop by 25%.
- A 40% increase in cardiovascular incidents like heart attack or stroke.
- It increases blood pressure, cholesterol, body mass, chance of cancer and likelihood of diabetes.
- It lifts the chance of any chronic health condition by 21%.
- The chance of major depressive disorder increases by 40%.

In contrast, if you stay working:

- It keeps your social network 25% larger.
- For every year you work after 60, your risk of dementia drops by 3.2%.
- It reduces mortality risk by 11%.

Still not convinced by the benefits of continuing to work and never retiring? Don't worry, neither am I.

10. Be sure to reminisce

Recently, I was taking my kids to their respective junior soccer matches and to get them in the right frame of mind, I put on a song called 'Eye of the Tiger'. It was released as the theme song for Rocky III in 1982 and became a big hit.

My memory of it doesn't come from the movie, but later when it was played before National Soccer league games that I'd go to with my Dad in Adelaide. Playing the song brings me back to that time and the time I got to spend with my father.

It turns out that this type of nostalgia is good for our brains as we age. Nostalgia boosts 'social connectedness' scores, positive memories and feelings of well-being.

So, take the time to reminisce and your health will thank you.

In my article this week, I look at the best way to build wealth by inverting the problem and first analysing the sure-fire methods of losing money in the market. These methods primarily revolve around pursuing things that aren't sustainable, like the current stock or market fad. I suggest that choosing a timeless investment strategy which won't be swayed by market gyrations or your circumstances is a better way to make money in the long-term.

Also in this week's edition...

Australian consumers have held up relatively well since the abrupt end of ultra-low interest rates. **Fidelity's Casey McLean** thinks this resilience is starting to crumble and could be replaced by a sustained pullback in spending. While this could have grave consequences for one sector of the Australian stock market, he thinks the outlook for three other industries is a lot brighter.

There aren't too many bigger or more recognisable names in Australian investing circles than **AMP's Chief Economist Shane Oliver**. Shane looks back at his 40 years in markets and the nine key lessons he's learned about investing, including there's always a cycle, the crowd gets it wrong at extremes, markets don't learn, and you need to know yourself to be a good investor.

As the financial year comes to a close, a lot of investors are selling stocks at a loss to offset other capital gains. **Ron Shamgar** from **TAMIM** points out that selling shares for this reason alone can leave tax loss harvesters on the wrong side of the trade. Meanwhile, this can present opportunities to investors with a keen eye for value and a long-term mindset. In his opinion, three ASX shares look especially compelling.

The world is having far fewer babies, which spells big challenges ahead for healthcare and retirement systems globally. **Paul Zwi** from **Clime** explains why Australia is in a luckier position than most and ponders the impact falling birth rates could have on politics, labour markets and migration worldwide.

Australians are paying almost two billion dollars in credit and debit card fees each year and the RBA wil now probe the whole payment system. What changes are needed to ensure the system is fair and transparent? **Professor Steve Worthington** has some ideas.

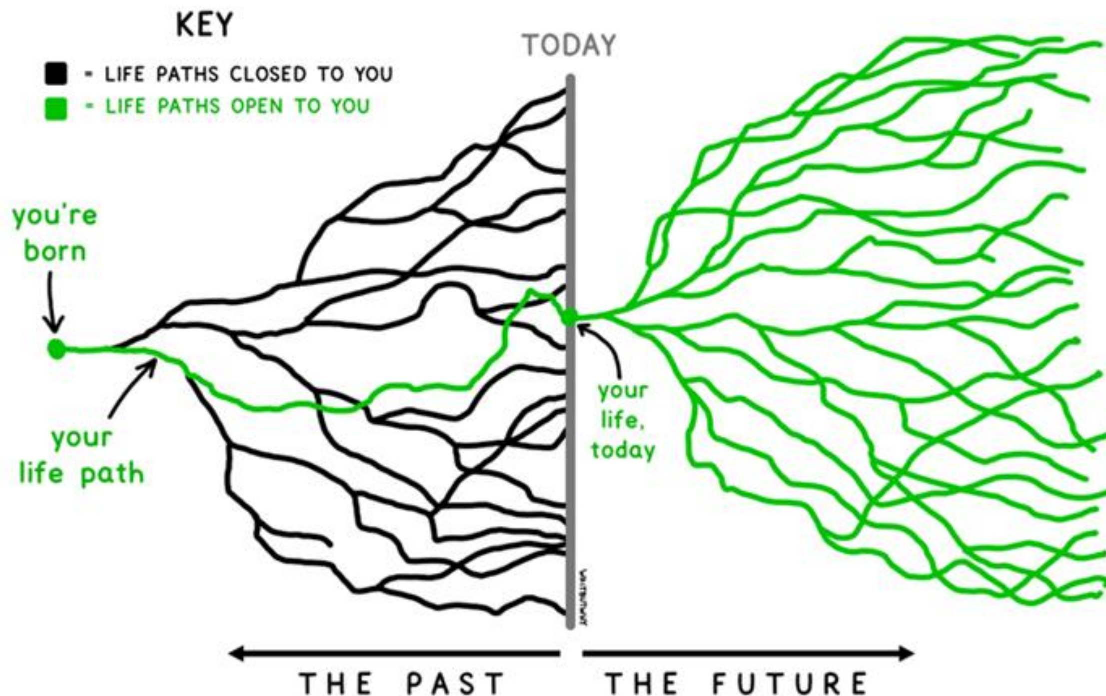
Transferring wealth between generations doesn't have to be complex nor does it have to involve huge amounts of tax leakage. When it comes to passing down assets, investment bonds have tax advantages that set them apart from managed funds and shares. **Josh Chye** explains why this overlooked asset class can lead to simpler and more tax-efficient estate planning.

Lastly, in this week's whitepaper, **Eastspring** - an affiliate of **GSFM** - examines how the rebalancing of global supply chains will impact markets.

The iron law of building wealth

James Gruber

I like the chart below. It shows how when we're born, we have infinite paths that we can take. Our experiences and decisions take us via a certain route to where we are today. And from now, there are similarly a lot of different directions that we can travel. The question is: what's the best path for us?



Source: Tim Urban

To make it easier, it can be worthwhile to think about the above diagram in terms of one key aspect of our lives: financial, social, health, perhaps spiritual. And, to consider the best ways to make the most of this part of our lives. To increase the odds of success, if you like.

The future is inherently uncertain. There's no guarantee that we'll end up where we want even if we make the right decisions along the way. However, there are ways to lift the probabilities of achieving our goals.

Inverting the problem

How do we this? One strategy can be to turn the question around 180 degrees and look at how not to do it.

Take our health for example. Most of us want to be healthy, to have a good quality of life as well to possibly extend our lifespan. Yet, we often pursue things that will never allow us to reach our goals.

Have you ever dieted before? I know some people who've tried every diet there is. Mediterranean, Atkins, high protein, Paleo, Keto, low-fat, intermittent fasting, and the list goes on.

The problem with dieting is it isn't sustainable. It's not something that we'll be able to maintain for the rest of our lives.

The same goes for fitness. Have you ever signed up for a gym membership, and given up after a few weeks? Or go to the gym for a more extended period, then give up for a while, before getting back into it, and then letting the membership lapse again? I know I have.

For many of us, going to the gym isn't sustainable either. It's not something we'll continue over the very long-term, for any variety of reasons.

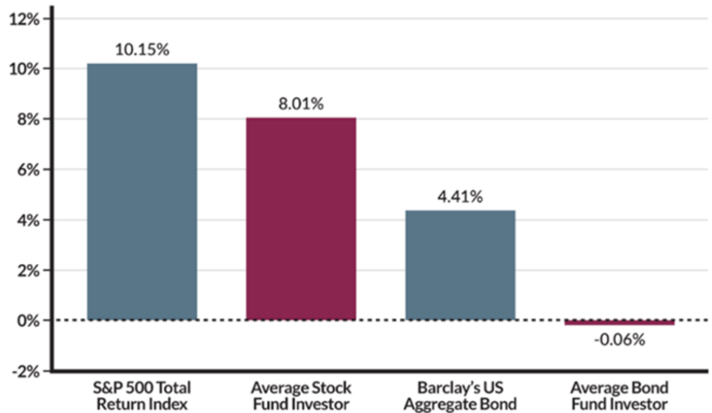
Often the solution is to look at things that are more sustainable. With diet, it's perhaps not trying a radical solution but a more incremental one. Instead of going for the Atkins diet, it's committing to eating a salad for lunch each day. Doing that consistently could do wonders for your health.

Or instead of going to the gym, committing to a sport that you like for 2-3 days each week. Or walking for 30 minutes each day. Anything that you could see yourself doing not only today, but in 10-, 20- or 50-years' time.

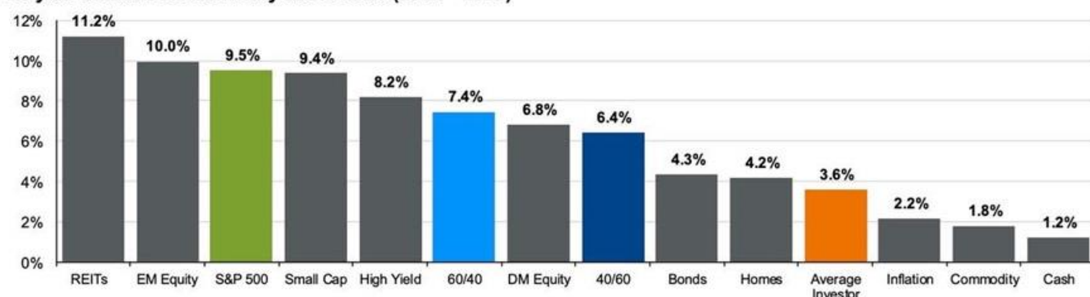
How this applies to investing

How does this relate to investing? The biggest mistake that I see investors make is constantly switching strategies. One minute, they'll chase the speculative pharmaceutical stock that they're sure will soon get FDA approval for a certain drug, or the mining company that's about to make the next big find, or the next bit of market momentum. And the next minute, they'll chase the investment manager that's recently shot the lights out, and we all know what usually happens then.

This flip-flopping leads to predictable results. Numerous studies show that the average retail investor underperforms indices by a wide margin.



The chart above reveals the average stock investor has trailed the index in the US by more than 2% each year over the past decade. This may be generous as prior studies have found worse outcomes.



The next chart shows part of the reason why this happens.

Trading and flip-flopping between strategies are what I call lottery investing. There's a small chance that you can hit it big, but the odds are against you.

How to tilt the odds in your favour

What can improve the probabilities of building wealth? As with our health, the answer usually revolves around what is sustainable, or timeless. What is an investment strategy that you feel comfortable pursuing in the long-term? Framing the issue this way has several advantages:

- It gets you thinking long-term rather than trying to find the next 'lottery stock'.
- It makes you consider what strategy may suit you best. It's not about what suits others, but you. Your goals, preferences, and personality.
- It can help identify your investing edge versus others. Warren Buffett once said: "If you've been playing poker for half an hour and you still don't know who the patsy is, you're the patsy." This can help you avoid being the patsy!
- It can help you ride through short-term market noise and market gyrations, both of which undo a lot of investors.

Notice how I haven't mentioned any specific investing style or strategy worth pursuing, because really that's up to the individual.

Possible objections

There are a few potential objections to the strategy of timeless investing:

1. Doesn't it mean sticking with a strategy that's static and not moving with the times?
2. Didn't Buffett change his style and go on to become successful?
3. What if my strategy isn't working? What do I then?

To the first question, it certainly does mean sticking with strategy – that's the whole idea.

While it's true that Buffett did change his investment style, there was a specific reason for that. As you may know, Buffett was a deep value investor when he ran his own fund, before buying into Berkshire Hathaway. Meeting Charlie Munger helped Buffett move towards more of a growth style of investing, which led to famous stock purchases such as Washington Post, Coca-Cola, and more recently, Apple.

What's little acknowledged is that Buffett was forced to evolve his strategy as he grew Berkshire. He foresaw that what worked previously with a small amount of money wasn't going to work with a large pot of cash.

As to the last question, that's a tricky one though it makes it even more critical to ensure your original choice of a strategy is the correct one.

A pullback in Australian consumer spending could last years

Casey McLean

'Resilient' is the most common word used to describe the Australian consumer since the interest rate hiking cycle begun two years ago. The Australian consumer has endured the rate hiking cycle with surprisingly good health, with several underlying factors at play.

Firstly, our labour market has been remarkably strong, with unemployment near record lows and labour participation rates at near record highs. Many people have upgraded their jobs, seeing the quit rate (officially known as the 'job mobility') at 12-year highs and the retrenchment rate at all-time lows.

Consumers have also been supported by the large savings buffer built during the pandemic, with multiple stimulus packages handed out at a time when spending was curtailed by lockdowns. Our savings rate spiked to an unprecedented 23.6% - the highest level since records began in 1959 and multiples of the pre-COVID average of 6.5%. We estimate that Australian households built up $270 billion in excess savings at their peak, equivalent to $10,300 per person.

During this period, many mortgage holders locked in ultra-low fixed rates, which has held them in good stead. In fact, until January 2022, the proportion of fixed rate mortgages almost doubled, nearing 40% of the total mortgages outstanding, as borrowers took advantage of cash rates near zero.

Migration has also helped to drive consumer spending. Pent up demand following the re-opening of our borders after COVID saw net migration hit a record high in 2023, with 518,000 immigrants arriving onto Australian shores, which equates to 2% of the Australian population.

And finally, our post-lockdown 'revenge spending' seems to continue unabated. Spending in services, including restaurants and travel - the sticky inflation - has been the hardest to impact. But how much longer can consumers withstand the squeeze?

Resilient no more

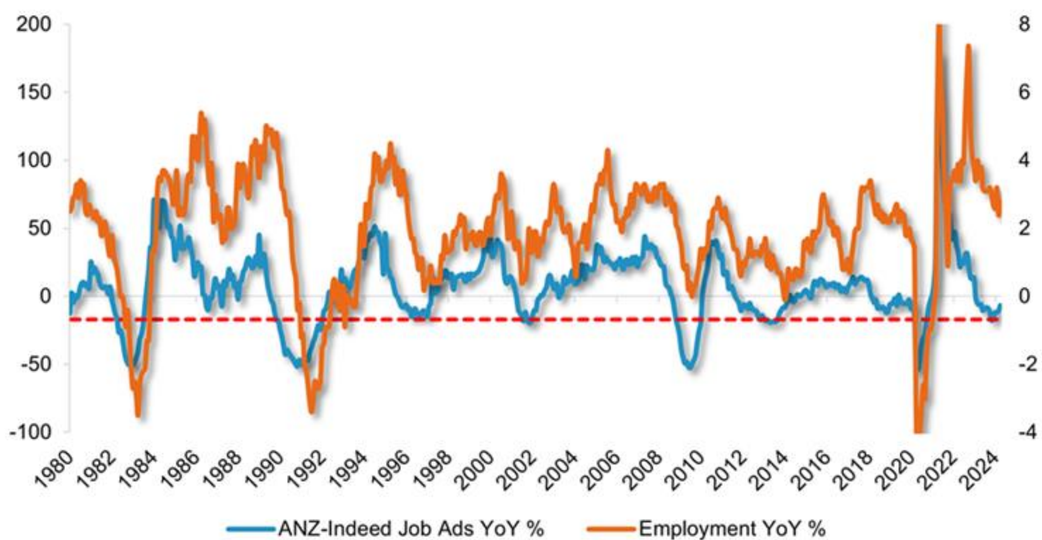
From where I stand, not for much longer.

The labour market is weakening. In May 2024, the unemployment rate rose to 4.0% from a low of 3.5% and while still low by historic standards, leading indicators point to further weakness.

Growth in job advertisements declined in February last year, with the pace of decline reaching 17.5% by November 2023. Historically, when advertising for jobs has declined at this rate, total employment growth has fallen to zero or below.

And while according to headline figures, employment remains robust, there is more behind these numbers. Anecdotally, many companies burnt by labour shortages post-COVID are reluctant to let employees go. This labour 'hoarding' can only be upheld if business conditions don't worsen. But Telstra's recent announcement to slash 10,000 employees nationally serves as a stark reminder as to how quickly things can change.

Chart 1: Growth in job advertisements has fallen



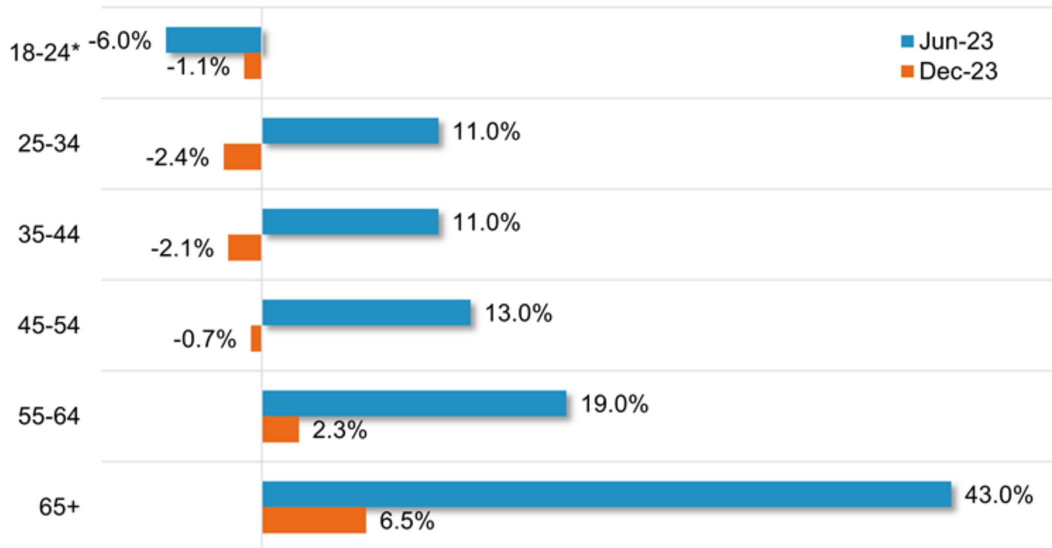
Source: ANZ-Indeed, ABS, Bloomberg, Fidelity International, June 2024.

The savings buffers have been drawn down by ~$70 billion since the peak, which leaves around $200 billion in excess savings. However, what is more relevant is the distribution of what's left in the economy.

[AMP analysis indicates] that the bottom 40% of households by income have already exhausted their excess savings, while high income earners are sitting on a significant surplus. This is an important distinction as we know higher income earners have less propensity to spend their savings.

Likewise, CBA data shows only people over 55 years are still seeing their savings balances grow. As cost-of-living pressures continue to rise, consumers under 55 are seeing deposit balances decline, with the pace of the decline increasing for younger age groups.

Chart 2: Savings balances by age cohort



Source: CBA, Fidelity International, June 2024.
**June 2023 data is for 18–24-year-olds. December 2023 data is for 20–24-year-olds.*

So while the fabled 'mortgage cliff' - the cliff the economy was meant to fall off last year - didn't materialise, the risk of a slower slide down the mortgage hill remains.

And the longer interest rates remain high, cost-of-living pressures eat further into household budgets. The trend in excess mortgage payments data supports this. Household disposable income used for excess mortgage payments has plummeted by more than 60% with the rise in interest rates, a trend that continues to worsen.

It is also clear that the likelihood of multiple interest rate cuts this year is low. Inflation is stickier than expected, especially in core, essential service categories such as housing, transport, education, insurance and financial services. These categories represent almost half of the Consumer Price Index basket and are seeing high, and in some cases, rising levels of inflation.

Finally, immigration is also being curtailed. Both the Government and the Opposition have pledged to lower the intake given the strains it has placed on the housing sector. The May budget forecasts a halving in net migration with the Opposition pledging to lower it further.

Prepare for weakness ahead

Delving deeper into the headline retail sales figures further unveils a weakening consumer.

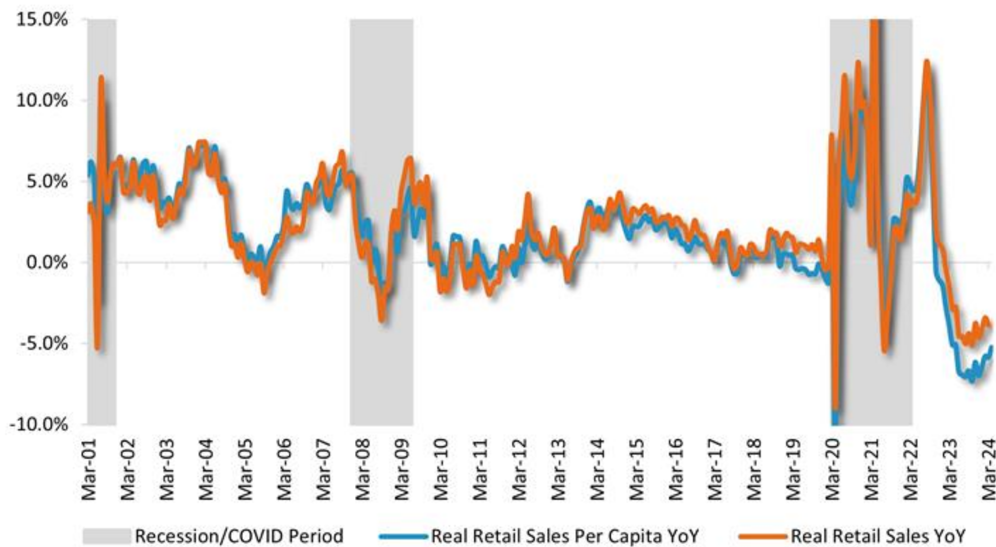
The 'Real retail sales' measure removes the impact of price changes and gives a better indication of volumes and is arguably a better measure in periods of high inflation. Real retail sales turned negative in February 2023 and has continued to decline 3-5% year on year.

Furthermore, real retail sales per capita, which also removes the impact of population growth, fell in November 2022 and has continued to decline around 5-7% year on year.

While consumer resilience has been strong until now, the tide has changed. I foresee a period of sustained consumer weakness that could last years.

Indeed, this was what we experienced post GFC. Whilst real retail sales declined sharply during the recession in 2008, it was relatively short-lived. The prolonged period of weakness was between 2010-12, long after the recession ended.

Chart 3: Trends in household spending



Source: ABS, Bloomberg, Fidelity international, June 2024.

Invest with caution

Over the past 12 months, many consumer discretionary stocks have benefited from 'better than expected' earnings and have risen to new highs. But with the headwinds this sector is facing, I see better risk/reward opportunities elsewhere.

Some consumer staple stocks, less discretionary by nature, have de-rated recently and are benefiting from margin improvements as their cost base decreases. I see other attractive opportunities also in the technology and insurance sectors, where companies have stronger pricing power which can enable more solid earnings growth.

Australian consumers have been resilient, but time is running out.

All information is current as at 11 June 2024 unless otherwise stated.

Casey McLean is a Portfolio Manager for the Fidelity Australian High Conviction Fund. Fidelity International is a sponsor of Firstlinks.

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The 9 most important things I've learned about investing over 40 years

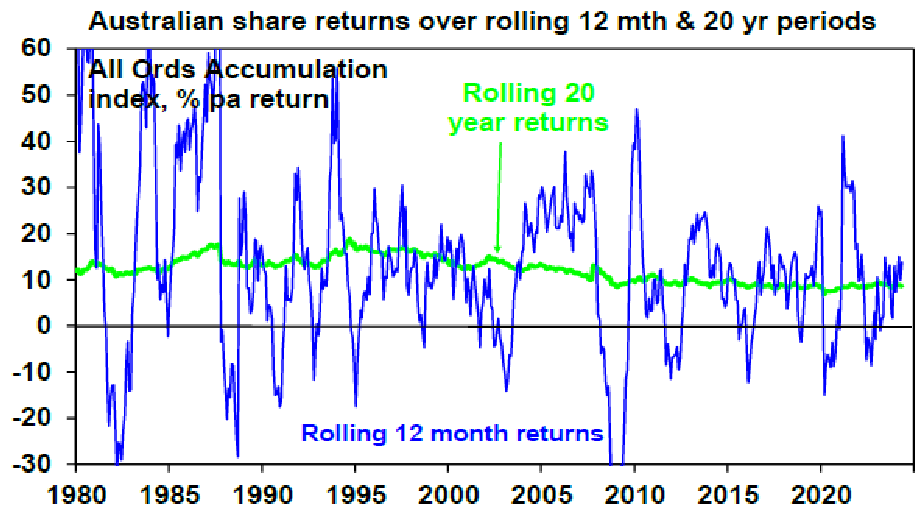
Shane Oliver

I have now been in the investment world for 40 years. I first looked at the lessons I learned in 2019. But they haven't changed much since. Much has happened over the last 40 years with each new crisis invariably labelled 'unparalleled' and a 'defining event': the 1987 crash; the US savings and loan crisis and the recession Australia 'had to have' around 1990; the Asian/LTCM crisis in 1997/1998; the late 1990s tech boom and the tech wreck in 2000; the mining boom and bust; the GFC around 2008; the Eurozone crisis that arguably peaked in 2012 but keeps recurring; China worries in 2015; the pandemic of 2020; and the resurgence of inflation in 2021-22.

The period started with deregulation and globalisation but is now seeing reregulation and de-globalisation. It's seen the end of the Cold War, US domination and the rise of Asia and China but is now giving way to a new Cold War. And so on. But the more things change the more they stay the same. And this is particularly true in investing. So, here's an update of the nine most important things I have learnt over the past 40 years.

#1 There is always a cycle – stuff happens!

A constant is the endless phases of good and bad times for markets. Some relate to the 3-to-5-year business cycle, and many of these are related to the crises listed above that come roughly every 3 years. See the next chart. Some cycles are longer, with secular swings over 10 to 20 years in shares.

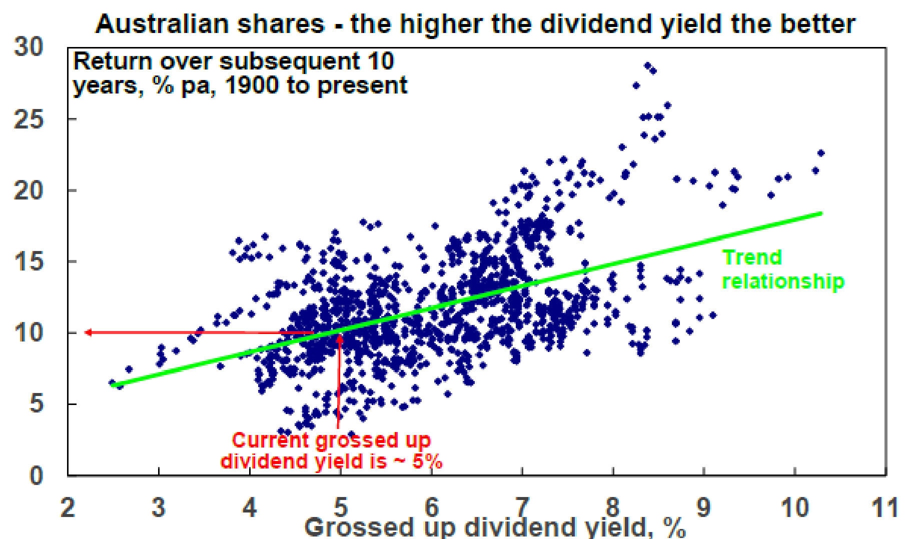


Source: ASX, RBA, Bloomberg, AMP

Debate is endless about what drives cycles. But all eventually contain the seeds of their own reversal and often set us up for the next one with its own crisis, often just when we think the cycle is over. So cycles & crisis are not going away. Ultimately there is no such thing as 'new normals' and 'new paradigms' as all things must pass. Also, shares often lead economic cycles, so economic data is often of no use in timing turning points in shares.

#2 The crowd gets it wrong at extremes

Cycles show up in investment markets with reactions magnified by bouts of investor irrationality that take them well away from fundamentally justified levels. This flows from a range of behavioural biases investors suffer from and so is rooted in investor psychology. These include the tendency to project the current state of the world into the future, the tendency to look for evidence that confirms your views, overconfidence, and a lower tolerance for losses than gains. While fundamentals may be at the core of cyclical swings in markets, they are often magnified by investor psychology if enough people suffer from the same irrational biases at the same time. From this it follows that what the investor crowd is doing is often not good for you to do too. We often feel safest when investing in an asset when neighbours and friends are doing the same and media commentary is reinforcing the message that it's the right thing to do. This 'safety in numbers' approach is often doomed to failure. Whether it's investors piling into Japanese shares at the end of the 1980s, Asian shares in the mid-1990s, IT stocks in 1999, US housing and credit in the mid-2000s. The problem is that when everyone is bullish and has bought into an asset there is no one left to buy but lots of people who can sell on bad news.



Source: ASX, RBA, Bloomberg, AMP

#3 What you pay for an investment matters – a lot!

The cheaper you buy an asset the higher its return potential. Guides to this are price to earnings ratios for shares (the lower the better) and yields, ie, the ratio of dividends, rents or interest to the value of the asset (the higher the better). Flowing from this it follows that yesterday's winners are often tomorrow's losers – as they get overvalued and over loved. But many find it easier to

buy after shares have had a strong run because confidence is high and sell when they have had a big fall because confidence is low.

#4 It's hard to get markets right

The 1987 crash, tech wreck and GFC all look obvious. But that's just Harry Hindsight talking! Looking forward no-one has a perfect crystal ball. As JK Galbraith observed, "there are two kinds of forecasters: those who don't know, and those who don't know they don't know."

Usually the grander the forecast – calls for 'great booms' or 'great crashes' – the greater the need for scepticism as such calls invariably get the timing wrong (so you lose before it comes right) or are dead wrong. Market prognosticators suffer from the same psychological biases as everyone. If getting markets right were easy, prognosticators would be mega rich and would have stopped long ago. Related to this, many get it wrong by letting blind faith – 'there is too much debt', 'house prices are too high' – get in the way of good decisions. They may be right one day, but an investor can lose a lot of money in the interim. The problem for ordinary investors is that it's not getting easier. The world is getting noisier with the rise of social media which has seen the flow of information and opinion go from a trickle to a flood and the prognosticators get shriller to get clicks. Even when you do it right as an investor, a lot of the time you will be wrong – just like Roger Federer who noted that while he won almost 80% of the 1526 singles matches in his career, he won only 54% of the points, or just over half. It's unlikely to be much better for great investors. For most investors its best to focus on the long-term trend in returns – ie, the green line as opposed to the blue line in the first chart.

#5 Investment markets don't learn, well not for long!

German philosopher Georg Hegel observed "The one thing that we learn from history is that we learn nothing from history". This is certainly the case for investors where the same mistakes are repeated over and over as markets lurch from one extreme to another. This is despite after each bust, many say it will never happen again, and the regulators move in to try and make sure it doesn't. But it does! Often just somewhere else or in a slightly different way. Sure, the details change but the pattern doesn't. As Mark Twain is said to have said: "History doesn't repeat, but it rhymes". Sure, individuals learn and the bigger the blow up, the longer the learning lasts. But there's always a fresh stream of new investors so in time collective memory dims.

#6 Compound interest is key to growing wealth

This one was drummed into me many years ago by my good friend Dr Don Stammer. Based on market indices and the reinvestment of any income flows and excluding the impact of fees and taxes, one dollar invested in Australian cash in 1900 would today be worth around $259 and if it had been invested in bonds it would be worth $924, but if it was allocated to shares it would be worth around $879,921. Although the average annual return on Australian shares (11.6% pa) is just double that on Australian bonds (5.6% pa) over the last 124 years, the magic of compounding higher returns leads to a substantially higher balance over long periods. Yes, there were lots of rough periods along the way for shares, but the impact of compounding returns on wealth at a higher long-term return is huge over long periods. The same applies to other growth-related assets such as property. So, to grow your wealth you need to have a decent exposure to growth assets.

#7 It pays to be optimistic

Benjamin Graham observed that "to be an investor you must be a believer in a better tomorrow". If you don't believe the bank will look after your deposits, that most borrowers will pay back their debts, that most companies will grow their profits, that properties will earn rents, etc, then you should not invest. Since 1900, the Australian share market has had a positive return in roughly eight years out of ten and for the US share market it's roughly seven years out of 10. So, getting too hung up worrying about the two or three years in 10 that the market will fall risks missing out on the seven or eight years when it rises.

#8 Keep it simple, stupid

We have a knack for overcomplicating investing. And it's getting worse with more options, more information, more apps and platforms, more opportunities for gearing, more fancy products, more rules and regulations. But when we overcomplicate things we can't see the wood for the trees. You spend too much time on second order issues like this share versus that share or this fund manager versus that fund manager, or the inner workings of a financially engineered investment so you end up ignoring the key drivers of your portfolio's performance – which is its high-level asset allocation across shares, bonds, and property. Or you have investments you don't understand or get too highly geared. So, it's best to keep it simple, don't fret the small stuff, keep the gearing manageable and don't invest in products you don't understand.

#9 You need to know yourself

The psychological weaknesses referred to earlier apply to everyone, but smart investors seek to manage them. One way to do this is to take a long-term approach to investing. But this is also about knowing what you want. If you want to take a day-to-day role in managing your investments then regular trading and/or a self-managed super fund (SMSF) may work, but that will require a lot of effort to get right and will need a rigorous process. If you don't have the time and would rather do other things like sailing, working at your day job, or having fun with the kids then it may be best to use managed funds or a financial planner. It's also about knowing how you would react if your investment just dropped 20% in value. If your reaction were to be to want to get out, then you will either have to find a way to avoid that as you would just be selling low and locking in a loss or if you can't then you may have to consider an investment strategy offering greater stability over time and accept lower potential returns.

What does all this mean for investors?

All of this underpins what I call the Nine Keys to Successful Investing:

1. Make the most of the power of compound interest. This is one of the best ways to build wealth, but you must have the right asset mix.

2. Don't get thrown off by the cycle. Cycles can throw investors out of a well thought out investment strategy. And they create opportunities.

3. Invest for the long-term. Given the difficulty in getting market moves right in the short-term, for most it's best to get a long-term plan that suits your level of wealth, age and tolerance of volatility and stick to it.

4. Diversify. Don't put all your eggs in one basket. But also, don't over diversify as this will just complicate for no benefit.

5. Turn down the noise. After having worked out a strategy that's right for you, it's important to turn down the noise on the information flow and prognosticating babble now surrounding investment markets and stay focussed. In the digital world we now live in this is getting harder.

6. Buy low, sell high. The cheaper you buy an asset, the higher its prospective return will likely be and vice versa.

7. Beware the crowd at extremes. Don't get sucked into the euphoria or doom and gloom around an asset.

8. Focus on investments you understand and that offer sustainable cash flow. If it looks dodgy, hard to understand or has to be based on odd valuation measures, lots of debt or an endless stream of new investors to stack up then it's best to stay away.

9. Seek advice. Given the psychological traps we are all susceptible to and the fact that investing is not easy, a good approach is to seek advice.

Dr Shane Oliver is Head of Investment Strategy and Chief Economist at AMP. This article has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs.

Tax-loss selling creates opportunities in these 3 ASX stocks

Ron Shamgar

Tax-loss selling is a strategy where investors sell underperforming stocks at a loss to offset capital gains from profitable investments. Investors employ this strategy to minimise the taxes owed on their net capital gains for the year. It becomes popular towards the end of the financial year when investors review their portfolios and look to optimise their tax positions.

However, tax-loss selling can potentially lead to quality companies becoming oversold during difficult periods.

When investors indiscriminately sell losing stocks solely for tax purposes, it can create excessive selling pressure and drive down the share prices of fundamentally sound companies that may be going through

temporary challenges. This overselling can present opportunities for investors to buy into quality businesses at discounted prices. But it also highlights the risk of prematurely exiting positions based solely on tax considerations rather than the company's long-term prospects.

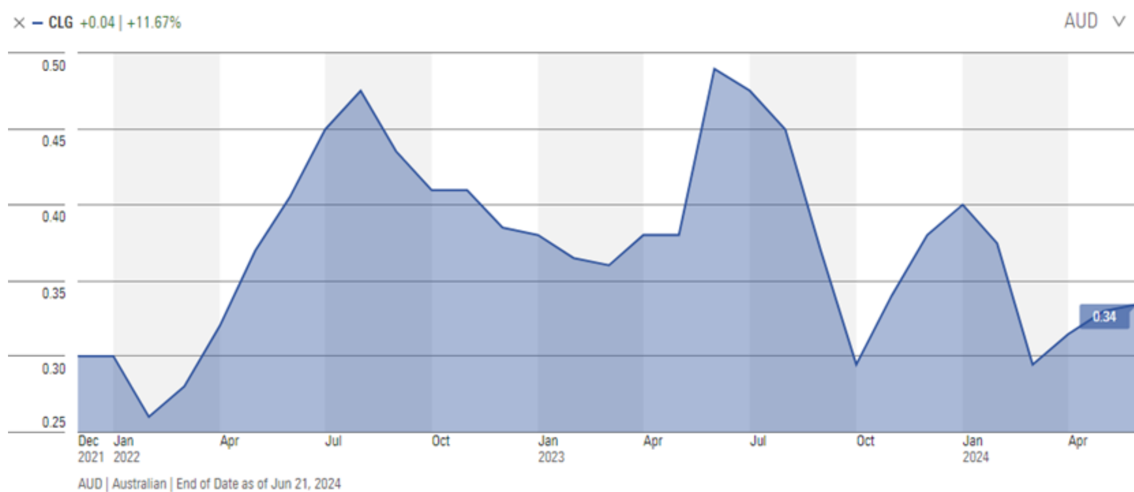
Here are some ASX companies that we believe may be suffering from tax loss selling.

Close the Loop

Close the Loop (ASX:CLG) is a global player in sustainable solutions operating across Australia, Europe, South Africa, and the United States. We've covered the company in depth here.

Close the Loop specialises in creating eco-friendly products and packaging with a strong emphasis on recyclable and recycled materials. The firm also plays a pivotal role in resource management by collecting, sorting, reclaiming, and reusing materials that would otherwise end up in landfills. The company's expertise spans a wide spectrum of sectors including electronics, print consumables, eyewear, cosmetics, plastics, paper, and cartons.

From 52-week highs of $0.50 the company's share price has been languishing in the low 30s.



Source: Morningstar.com

So why should shareholders be bullish?

Close the Loop is well-positioned to benefit from the growing global shift towards a circular economy and increased recycling of products and materials. Major companies like HP, one of Close the Loop's key customers, have ambitious targets to significantly increase circularity and use of recycled materials in their products by 2030. This suggests substantial volume growth potential for Close the Loop's services.

Moreover, the company's financials are outperforming expectations. In the first half of FY24, Close the Loop reported strong revenue growth of 76%, with even higher increases in gross profit (94%), operating earnings (139%), and underlying net profit before tax (204%). The company is also improving its balance sheet by reducing debt.

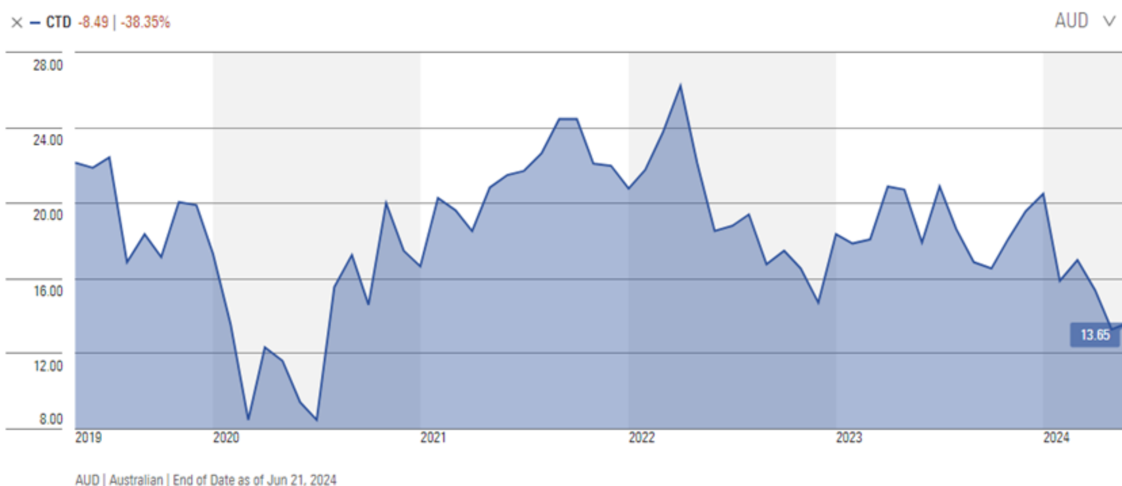
With what we feel is an attractive valuation, Close the Loop's growth runway and financial performance provide reasons for shareholder optimism despite recent share price declines.

Corporate Travel Management

Corporate Travel Management (ASX:CTD) is a leading provider of travel management solutions for corporate customers globally.

CTD's share price experienced a significant decline in February 2024, despite reporting a 162% increase in underlying net profit and a tripling in statutory net profit for the first half of FY24. This sharp drop was attributed to the company lowering its full-year guidance, citing a $40 million operating earnings headwind from macroeconomic issues and the underperformance of its UK Bridging contract, factors beyond its control.

The initial sell-off slowed but has extended in recent weeks with shares trading around 52-week lows below $13.



Source: Morningstar.com

However, CTD unveiled a five-year growth strategy aimed at doubling FY24 profits organically by FY29. The key pillars of this strategy include:

1. Revenue growth over 10% annually from winning new clients
2. 97% annual client retention
3. Productivity and innovation gains
4. EBITDA growth outpacing revenue growth, with 50% of new revenue falling to EBITDA
5. Acquisitions providing additional growth on top of organic goals.

Notably, key metrics like client wins, retention, and revenue per employee are already meeting or exceeding targets.

Despite the short-term challenges, shareholders could be optimistic about a turnaround. The headwinds are considered temporary, while underlying performance remains strong, with January results rebounding strongly across regions.

Crucially, CTD is well-positioned to execute its growth strategy, having a proven track record in acquisitions and synergy extraction, positioning it well for likely industry consolidation. Even with the headwinds, underlying operating earnings guidance still represents 31.7% growth over FY23 at the midpoint.

Tabcorp Holdings

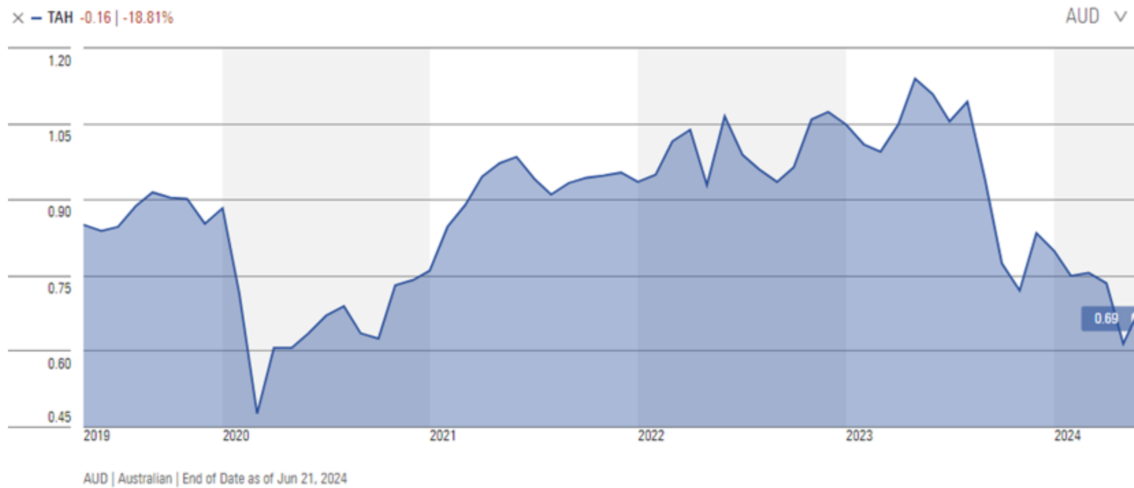
Tabcorp Holdings Ltd (ASX:TAH) is Australia's largest gambling company, operating a portfolio of leading brands in wagering, media, and gaming services.

The company has struggled in recent times, with revenue for the first half of the fiscal year dropping 5% compared to the corresponding period, primarily due to weakness in the wagering segment. Group operating earnings fell 14% to $170 million, while Group earnings before interest and tax (EBIT) declined 32% to $50 million. Tabcorp also took a significant impairment charge of $731.9 million after tax to the Wagering and Media business, attributing the recent weakness to difficult macroeconomic conditions and a return to a more normal market following high growth during the COVID-19 period.

Despite these challenges, we feel Tabcorp may be an attractive takeover candidate for major international players.

With the potential exit of online competitors due to increased taxes and advertising restrictions, Tabcorp's leading Australian brands, national scale, and reach could position it strategically in the evolving landscape.

However, investing in Tabcorp may be risky, its share price graph resembling a double black diamond ski slope—steep and treacherous and it may be best left only for brave investors.



Source: Morningstar.com

The TAMIM Takeaway

While tax loss selling can create opportunities to buy quality companies at discounted prices, investors should be wary of indiscriminately selling underperformers solely for tax purposes.

A long-term view on a company's fundamentals and prospects is crucial. The examples highlighted above show how short-term challenges and tax loss selling pressure can potentially obscure the underlying strengths of a business. Investors with patience and a keen eye for value may find attractive entry points in fundamentally sound companies experiencing excessive selling. However, thorough research is essential to separate temporary setbacks from deeper structural issues.

By looking beyond the tax loss selling noise, disciplined investors can potentially uncover promising opportunities to generate substantial returns over the long run.

Ron Shamgar is Head of Australian Equity Strategies at TAMIM Asset Management. The information provided in this article is for general information only. It has been prepared without taking into account your personal objectives, financial situations or needs. You should seek personal financial advice before making any financial or investment decisions.

Disclaimer: *Tabcorp Holdings Ltd (ASX: TAH) and Close the Loop (ASX: CLG) are currently held in TAMIM Portfolios.*

The global baby bust

Paul Zwi

Recently, Treasurer Jim Chalmers said that Australians should have more kids. John Howard even challenged the Treasurer to bring back the baby bonus. Across the globe, leaders are concerned about declining birth rates and shrinking populations, with many government leaders seeing this as a matter of national urgency. They worry about shrinking workforces, slowing economic growth, a shrinking tax base and underfunded pensions; and the vitality of a society with ever-fewer children. Smaller populations often come with diminished global clout and greater vulnerabilities.

Fortunately, Australia is relatively well positioned, being an extraordinarily attractive destination for migrants – even though its birth rate mirrors that of other developed countries. But migrants can make a huge difference to low-population countries: when I migrated to Australia in 1988, the population was 16.5 million; today it is 26.8 million. The Australian Bureau of Statistics (ABS) projects that Australia’s population will reach between 34.3 and 45.9 million people by 2071. But we are one of the lucky few.

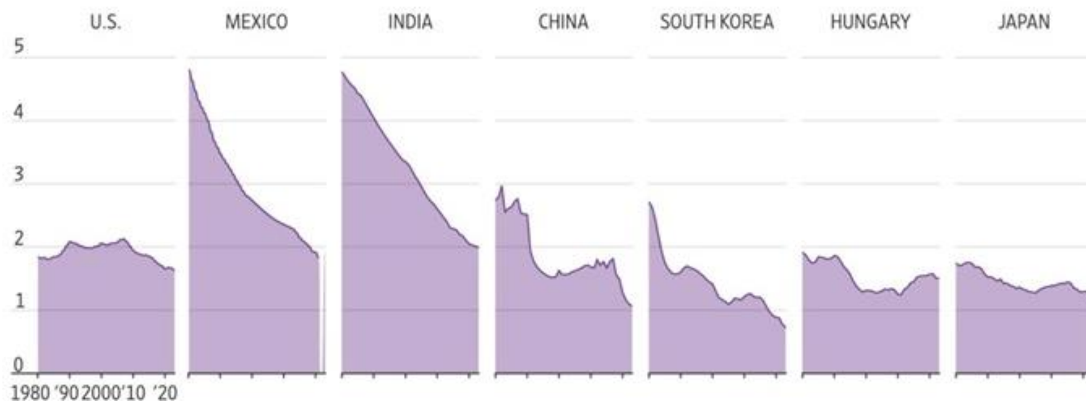
A major turning point

Indeed, the world is at a startling demographic milestone. Sometime soon, the global fertility rate will drop below the point needed to keep the world's population constant. It may have already happened. Fertility is falling almost everywhere, for women across all levels of income, education, and labour-force participation. The falling birth rates come with huge implications for the way people live, how economies grow and the cultural norms we take for granted.

In high-income nations, fertility fell below replacement in the 1970s and took a leg down during the pandemic. It's dropping in developing countries, too. India surpassed China as the most populous country last year, yet its fertility is now below replacement. Some demographers think the world's population could start shrinking within four decades – one of the few times it has happened in history.

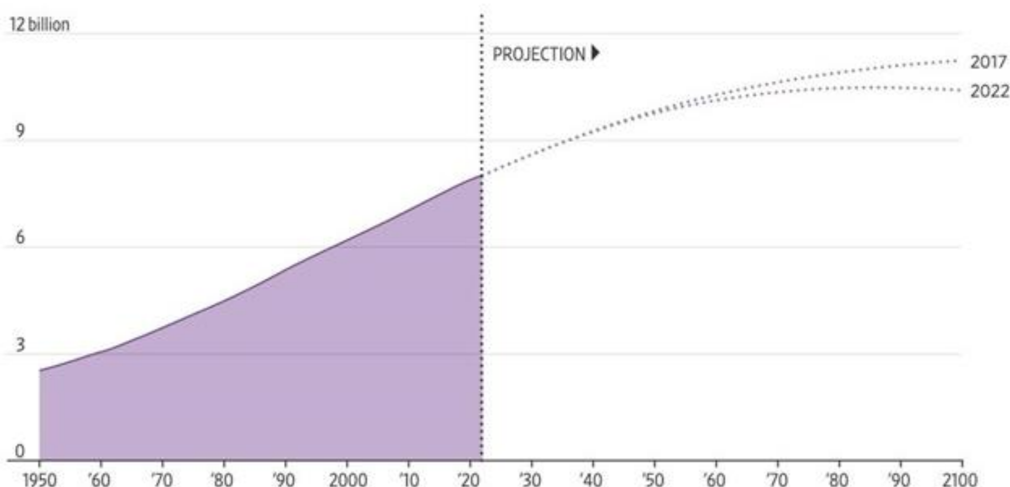
A year ago, Japanese Prime Minister, Fumio Kishida, declared that the collapse of the country's birth rate left it "standing on the verge of whether we can continue to function as a society." Japan's population today is 125 million; by 2100 it is projected to fall to just 63 million, and of those, 40% will be 65 years old or older.

In 2017, when the global fertility rate (how many babies a woman is expected to have over her lifetime) was 2.5, the United Nations thought it would slip to 2.4 in the late 2020s. Yet by 2021, it was already down to 2.3, close to what demographers consider the global replacement rate of about 2.2. The replacement rate, which keeps the population stable over time, is 2.1 in rich countries, and slightly higher in developing countries (where fewer girls than boys are born, and more mothers die during childbearing years).



Source: Wall Street Journal

In 2017 the UN projected that the world population, then 7.6 billion, would keep climbing to 11.2 billion in 2100. By 2022 it had lowered and brought forward the peak to 10.4 billion in the 2080s. That, too, is likely out of date. The Institute for Health Metrics and Evaluation now thinks it will peak at around 9.5 billion in 2061 and then start declining.



Source: Wall Street Journal

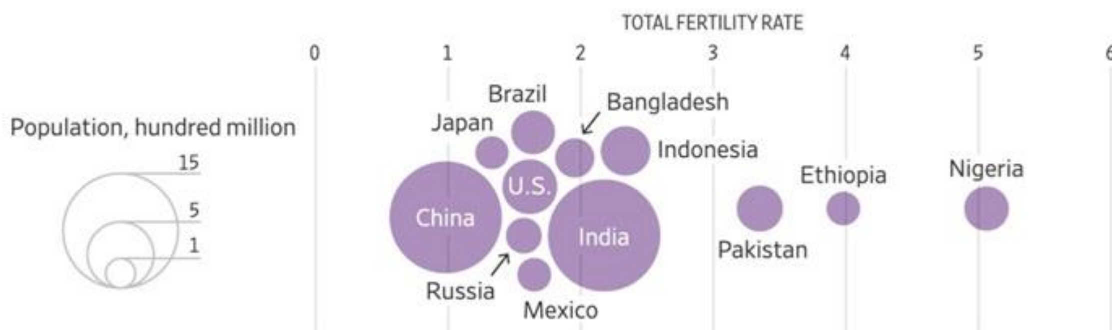
Historians refer to the decline in fertility that began in the 18th century in industrialising countries as 'the demographic transition'. As lifespans lengthened and more children survived to adulthood, the impetus for bearing more children declined. As women became better educated and joined the workforce, they delayed marriage and childbirth, resulting in fewer children.

But now, it appears that birth rates are low or are falling in many diverse societies and economies.

Some demographers see this as part of a 'second demographic transition', a society-wide re-orientation toward individualism that puts less emphasis on marriage and parenthood and makes fewer or no children more acceptable. If people prefer spending time building a career, on leisure, or relationships outside the home, that is more likely to conflict with having children.

And that's not just in Western countries. Urbanization and the internet have given even women in traditional male-dominated developing world villages a glimpse of societies where fewer children and a higher quality of life are the norm. People everywhere are plugged into the global culture.

Sub-Saharan Africa once appeared resistant to the global slide in fertility, but that too is changing. The share of all women of reproductive age using modern contraception in that region grew from 17% in 2012 to 23% in 2022, according to Family Planning 2030. And once a low fertility cycle kicks in, it effectively resets a society's norms and is hard to break.



Source: Wall Street Journal

Economic implications of the baby bust

With no reversal in birth rates in sight, the attendant economic pressures are intensifying. Since the pandemic, labour shortages have become endemic throughout developed countries. That will only worsen in coming years as the post-crisis fall in birth rates yields an ever-shrinking inflow of young workers, placing more strain on healthcare and retirement systems.

The usual prescription in advanced countries is more immigration, but that has its own problems. As more countries confront stagnant populations, immigration between them for 'skilled migrants' is a zero-sum game. Historically, Australia has sought skilled migrants who enter through formal, legal channels, and we have been fortunate enough to have plenty of candidates to choose from. But many developed countries, like the US and the UK, have been resisting recent inflows of predominantly unskilled migrants, often entering illegally, and claiming asylum. High levels of immigration can also foster political resistance, often over concerns about cultural and demographic change. Unfortunately, it is no coincidence that the rise of the extreme right-wing in countries like Germany, Sweden and Italy has followed on the heels of very large intakes of migrants, often from countries that do not share similar cultures.

Paul Zwi is a Portfolio Strategist at [Clime Investment Management Limited](), a sponsor of Firstlinks. The information contained in this article is of a general nature only. The author has not taken into account the goals, objectives, or personal circumstances of any person (and is current as at the date of publishing).

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Hidden card fees and why cash should make a comeback

Steve Worthington

Editor's note: This is an edited transcript of an interview between the ABC Radio National's Andy Park and Professor Steve Worthington from Swinburne University of Technology on June 18, 2024.

Andy Park: Steve, it seems like in the past buying things was kind of simple. You just gave the merchant your money and they gave you the product. There was a price and when you went to pay for the item, you paid that price. It was rather more simple. When did it get so complicated?

Steve Worthington: The RBA bank allowed surcharging in 20 years ago in 2004. So, that allowed merchants, who accept payments, to surcharge. But very few did at the time. And the regulator, the ACCC, pursued some of those early people with surcharges and penalized them for that. But we seem to have a bit of an outbreak of surcharging. More than seems to; definitely has been an outbreak of surcharging. I had lunch today at a restaurant and they're asking for a 2.2% surcharge on all payment cards.

Andy Park: 2.2%? That's pretty up there actually. I'm not sure if I've seen one [that high]. I've seen about 2%. They're usually on restaurants, convenience stores, the sort of store that has a buzzer that goes bing-bong when you walk in. That's kind of when I know that they might be charging me a transaction fee. What are some of the sorts of vendors or sorts of products that tend to come with these transaction fees?

Steve Worthington: It's a very broad answer I'll have to give you there. It's really often the smaller merchants, if you like, the convenience stores, the small cafes, restaurants perhaps. It's not the big players like the supermarket chains or the airline industry, because they're so big that the actual merchant service fees are very, very low for them because the banks who are involved in this want to keep them as customers. So, it's mostly the small to medium-sized enterprises who are actually using surcharging, in my opinion, as a way of getting some extra money into the tills.

Andy Park: The RBA's Head of Payments Policy, Ellis Connolly, announced a review, a very wide-ranging review, you might say, into card and transaction fees. He also pointed to overseas card fees in particular being as high as 5% or 6%. Are there actually any good reasons that buying things from overseas should have these sorts of higher fees?

Steve Worthington: There are certain banks in Australia who actually will waive those fees for you. There are no international transaction fees, but it's often going through Visa or Mastercard payment routes, as well as perhaps American Express, but particularly Visa or Mastercard. And when those cards are issued outside of Australia, then it's possible that people can add extra charges on for using the card here or when people from overseas are coming here, they pay extra as well. So, it's a big thing.

And Ellis was quite right when he was saying there's a whole lot of things that need to be adjusted here because the last legislation on these matters was in 1998, the Payment Services Act, and that gives regulatory powers to the Reserve Bank of Australia, but they need to change those powers because there's many new ways of paying these days. We're not just cash or credit cards. We've got debit cards. We've got paying on digital means from your mobile or your watch, whatever. And so, there's a whole lot of new players in the market. And I don't think they're actually being regulated in the way that the RBA would like.

Andy Park: It is heartening that the RBA is now onto this, but you could mount the argument that this is a bit latent. During the pandemic, when everyone was sort of cash-phobic for hygiene reasons, I really noticed these sorts of fees creeping in more and more. Who do we point the finger at, at this latency, if you like? Is it the government, the Minister for Financial Services, the Treasurer, or the RBA?

Steve Worthington: Well, I suppose in a sense, what I've already said, the RBA set out with this surcharging idea initially 20 years ago so that we would divide our attention between both debit and credit cards. And they wanted to move us more towards using debit cards than credit cards. And that actually is what happened where debit cards are much more frequently used than credit cards these days. But that's 20 years ago.

What we're seeing now is small merchants using Square and also one called Stripe. Now, they have a merchant service fee that's around about 2%. And that's taken by them as you use that particular terminal to make a payment with your card or your phone or whatever. So, things have moved on and there's new players in the market that are not regulated. And I think the RBA wants to get some sort of organisation there, some sort of regulatory power over them because otherwise, it's just going to get more and more complicated.

Andy Park: The RBA also flagged a crackdown on buy now, pay later operators. They're another sort of financial services provider that's been leaping ahead in bounds really at the present moment. They might even compel operators such as Afterpay to ditch the no surcharge rules currently forced on retailers. What do you think about that one, Steve? I mean, would you welcome that?

Steve Worthington: That's a very complicated one. Putting surcharges, allowing buy now, pay later people to charge a surcharge for their transactions is a tricky one. I think there's a big challenge for buy now, pay later. We're seeing just today, I think, the collapse of a one called Laybuy, which was both in Australia and New Zealand, and Apple Pay has shut down their Apple Pay later, which was effectively a buy now, pay later thing. So, I think the buy now, pay later fashion has gone out of fashion and the companies themselves are struggling. They've only got about 2% of the card purchases market. So, surcharging would help them, yes, but that's a very risky manoeuvre to put that on to buy now, pay later.

Andy Park: Is the complexity of this whole system an argument to really ensure that cash is still a viable payment option? We know the costs of cash are high and becoming more increased because of less and less people using them. We know Armaguard was risking foreclosure recently because of the same sorts of reasons. But it does reinforce this idea. You know where you stand when you're holding a $20 note in your hand and how much you're expecting back in change from the vendor.

Steve Worthington: Very true. I'm very keen on seeing cash survive. More than survive, I'd like to see cash come back into fashion again, because as you pointed out, when you're paying as a customer, there's no surcharges on cash and no fees attached to it. And there's a great thing there called anonymity. No one knows what you bought and how much you've spent. Also, I think when it comes to educating our children into where value is or what things cost, when you're just tapping on with a card or your mobile phone, a child looks at it and thinks, oh, that's the way people pay for things. They don't see the money coming across, if you like, the actual coins and notes. I think that learning – getting people to, particularly children, to learn that things do cost money, real money is quite important.

Editor's note: That was an edited transcript of an interview between the ABC Radio National's Andy Park and Professor Steve Worthington from Swinburne University of Technology on June 18, 2024.

Investment bonds should be considered for retirement planning

Josh Chye

Retirement planning is a critical aspect of financial health, yet many Australians are overlooking some of the most effective tools available for securing a financially stable future.

Ahead of an expected $4.9 trillion wealth transfer from Baby Boomers and their parents to the next generation by 2034, investment bonds stand out, particularly in terms of tax efficiency and estate planning.

Investment bonds are not a new structure – they have been around for many years. But they are proving to be an increasingly valuable addition to the financial planning toolkit as other investment vehicles become more limited due to changing regulations and taxation.

What is an investment bond?

Investment bonds are a flexible savings product that can grow investors' money over time to help them achieve long-term financial goals. This can include supplementing retirement savings, assisting in estate planning and intergenerational wealth transfer, investing on behalf of children, or simply investing in a tax effective manner.

An investment bond is primarily used for investment purposes rather than protection and offer a range of investment options. They are managed under a tax-paid framework, which sets them apart from other investment vehicles like direct shares or managed funds.

How do investment bonds work?

Investment bonds operate under a simple structure: investors make an initial lump sum investment or frequent contributions over time. The returns on these bonds are subject to a maximum tax rate of 30 per cent, which is significantly lower than the personal tax rate for higher income earners in Australia. This tax is paid within the bond, meaning it does not contribute to an investor's personal income tax liabilities.

If the investment bond is held for at least ten years, withdrawals from the bond are tax-free. This feature allows for effective tax planning, particularly for those who are at or near their superannuation contribution limits and seek additional avenues to accumulate wealth for retirement.

The overlooked benefits in estate planning

Setting up a will can be overwhelming and confronting, and yet despite their substantial benefits, investment bonds are often overlooked in estate planning.

They provide a straightforward way to pass wealth to beneficiaries outside of the complex and sometimes contentious process of wills and probate. Investment bonds can be set up to directly transfer to a named beneficiary upon the investor's death, ensuring that the transition of wealth is smooth and not subject to legal disputes.

This direct transfer capability makes investment bonds a powerful tool for intergenerational wealth transfer. The tax-paid status of the bond also means that beneficiaries receive the proceeds without additional tax liabilities, which is a significant advantage over other forms of inheritance that might be taxed as income or capital gains.

Investment bonds and wealth transfer

There are also compelling tax benefits for beneficiaries of investment bonds.

The ability to nominate beneficiaries and the tax-free status upon transfer make investment bonds particularly attractive for intergenerational wealth planning. You can nominate a beneficiary anytime to receive the proceeds of the investment bond in the event of your death—tax free—without needing to apply for probate or for your estate to be potentially contested.

For example, grandparents can establish an investment bond that names their grandchildren as beneficiaries, providing a tax-effective gift that matures when they deem appropriate, typically when the grandchild reaches a certain age. All the while, the bond is accumulating returns without the high rate of tax that minors pay coming into play on earnings within the bond, or affecting their personal tax when they start work.

No annual review or renewal is required, and you can update your nominated beneficiaries at any time.

Investment bonds and retirement planning

Investment bonds are not just another investment option; they are a strategic tool that complements superannuation, especially for those who have maximised their contribution limits. They offer flexibility in access and withdrawals, which is particularly appealing for retirees who might need liquidity before reaching the age conditions imposed by superannuation funds.

Furthermore, the tax treatment of investment bonds makes them an ideal choice for high-income earners looking to manage their taxable income more effectively. By investing in a bond, they can potentially lower their taxable income while still achieving significant returns on their investments.

Summary

Investment bonds offer a unique combination of flexibility, tax efficiency, and strategic benefits for estate planning, making them an excellent addition to any retirement plan. Their potential for intergenerational wealth transfer further enhances their appeal, providing a straightforward and tax-effective method to support future generations.

Given these compelling advantages, it is crucial for Australians to consider investment bonds in their retirement planning. By integrating these instruments into a broader financial strategy, people can achieve greater financial security and peace of mind, knowing that their retirement and the well-being of their descendants are well catered for.

Josh Chye leads the Melbourne HLB Mann Judd Tax Consulting division. This article is for general information only. It should not be accepted as authoritative advice and any person wishing to act upon the material should obtain properly considered advice which will take into account their own specific circumstances.

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