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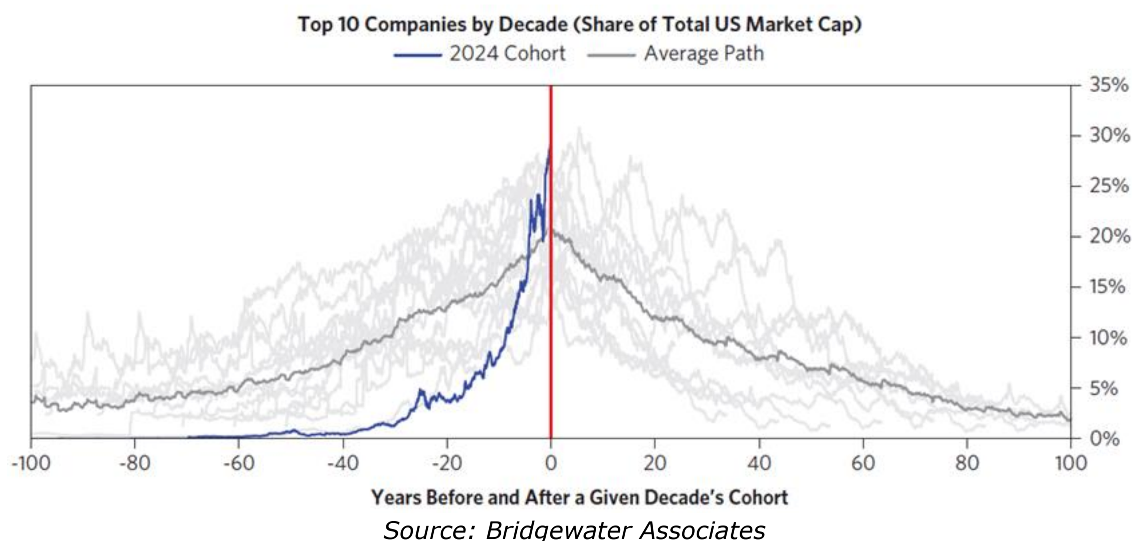
Editorial

Much has been made of the concentration of the US stock market. Rightly so, given the 10 largest US companies account for almost one-third of the US equities market capitalization – the highest percentage in decades.

In a recent report, hedge fund Bridgewater Associates investigated the largest US stocks through history, how long they stayed at the top, and what led to their downfalls. They were interested in what lessons could be taken from the past and applied today.

The chart below shows the rise and fall of large companies by market cap across different decades.



Source: Bridgewater Associates

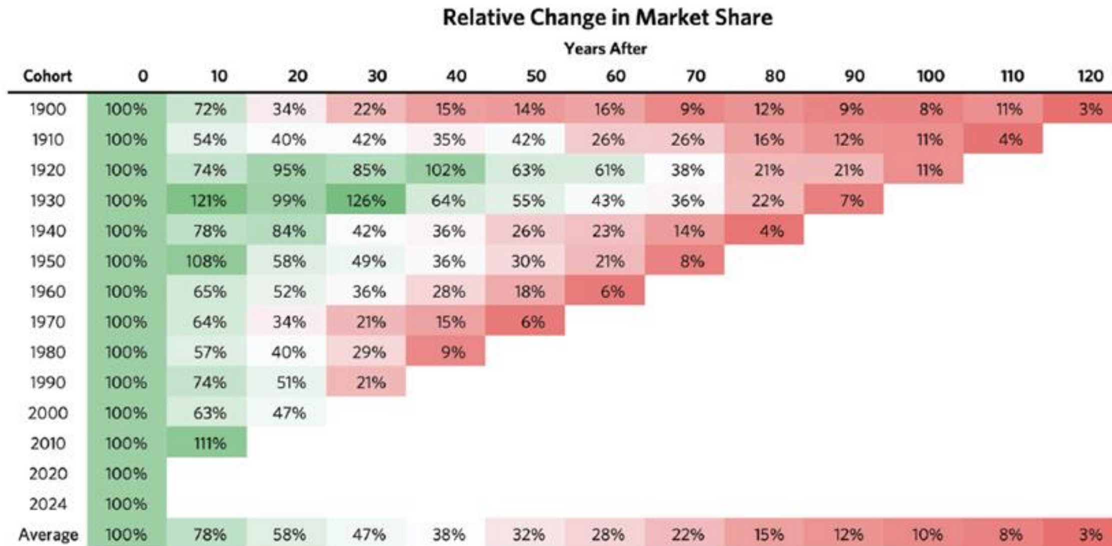
The chart confirms that the concentration of the top 10 US companies is high versus the past. And that the drop-off of stocks after peaking is normally steep through history.

Staying on top is difficult

Not every era is the same. Some stock titans stay on top for decades, while others decline sharply. As a rule, though, most succumb to increasing competition and the forces of creative destruction.

As to how leading US stocks, or 'market champions' as Bridgewater calls them, have performed compared to the market, the news isn't reassuring either:

"Over a subsequent decade or two, about half of the market champions underperform the market and fall out of the top 15 champions group. And over long periods of time, almost all champions are dethroned."



Relative Change in Market Share

Cohort	0	10	20	30	40	50	60	70	80	90	100	110	120
	Years After												
1900	100%	72%	34%	22%	15%	14%	16%	9%	12%	9%	8%	11%	3%
1910	100%	54%	40%	42%	35%	42%	26%	26%	16%	12%	11%	4%	
1920	100%	74%	95%	85%	102%	63%	61%	38%	21%	21%	11%		
1930	100%	121%	99%	126%	64%	55%	43%	36%	22%	7%			
1940	100%	78%	84%	42%	36%	26%	23%	14%	4%				
1950	100%	108%	58%	49%	36%	30%	21%	8%					
1960	100%	65%	52%	36%	28%	18%	6%						
1970	100%	64%	34%	21%	15%	6%							
1980	100%	57%	40%	29%	9%								
1990	100%	74%	51%	21%									
2000	100%	63%	47%										
2010	100%	111%											
2020	100%												
2024	100%												
Average	100%	78%	58%	47%	38%	32%	28%	22%	15%	12%	10%	8%	3%

Note: Market champions' share can exceed 100% when the group of companies that were top 10 in a given decade end up accounting for a larger share of the total market a few years later. This is possible since we are not selecting cohorts based on when they peaked, but at the point in time at the start of each decade. For instance, if big tech were to become an even larger share of the total market relative to today without new disruptors changing who the champions are, we would likely see a value above 100% for the 2024 cohort in a few years.

Source: Bridgewater Associates

Bridgewater suggests there's a lifecycle to companies. The ones that turn into megacaps tend to have "first-move advantage in a high secular growth industry benefiting from rapid innovation." These companies have an edge or moat that allows them to keep competitors at bay for a time. However, the same forces that propel their rise also lead to their downfall. Eventually, newer, faster companies take their place and gain market share.

The businesses which can stay on top normally continue to innovate and they may also receive favourable regulation along the way, keeping competitors at bay.

Stock market titans through the decades

From 1900 to 1920, railway stocks dominated the US market. Railways were central to US industrialisation, starting in the second half of the 19th century. They were the only reliable means of transporting goods across the country.

Companies competed fiercely as the railway system expanded. But by 1900, the industry had consolidated, with the formation of powerful railway monopolies. Railway companies accounted for five of the top 10 stocks by total US market cap in 1900, and that increased to six out of 10 by 1910. At their peak, railroads were more than 30% of the US market cap.

1900

Company Name	Sector	Share of Total Mkt Cap
EXXON MOBIL CORP	Oil	8%
PENN CENTRAL CO	Transportation	3%
NEW YORK CENTRAL RAILROAD	Transportation	2%
CHICAGO BURLINGTON AND QUINCY RAIL	Transportation	2%
AMERICAN TOBACCO CO	Tobacco	2%
NEW YORK NEW HAVEN AND HARTFORD RAIL	Transportation	2%
PULLMAN INC	Construction	1%
LAKE SHORE & MICHIGAN SOUTHERN RAIL	Transportation	1%
BURLINGTON NORTHERN SANTA FE	Transportation	1%
NEW VALLEY CORP	Real Estate	1%

1910

Company Name	Sector	Share of Total Mkt Cap
EXXON MOBIL CORP	Oil	4%
MARATHON	Oil	3%
PENN CENTRAL CO	Transportation	3%
UNION PACIFIC CORP	Transportation	3%
SANTA FE PACIFIC CORP	Transportation	3%
NORTHERN PACIFIC RAILWAY CO	Transportation	2%
AT&T CORP	Telecom	2%
BURLINGTON NORTHERN SANTA FE	Transportation	2%
NEW YORK CENTRAL RAILROAD	Transportation	2%
CHICAGO BURLINGTON AND QUINCY RAIL	Transportation	2%

Source: Bridgewater Associates

But in the 1920s, new competition came principally from trucks (airplanes less so at that stage). Trucks were helped by less regulation on pricing and route-setting compared to rail.

From 1920 to 1940, different market leaders emerged. Oil giants moved to the top, while new companies rose, such as AT&T, the leader in building out US telephone networks. Chemicals company, DuPont, became a megacap, riding advances in materials such as the invention of nylon and Teflon. And GE emerged as a giant, first as a television broadcaster, then as an aircraft supplier.

1920

Company Name	Sector	Share of Total Mkt Cap
EXXON MOBIL CORP	Oil	3%
MARATHON	Oil	2%
AT&T CORP	Telecom	2%
PENN CENTRAL CO	Transportation	2%
MOBIL CORP	Oil	1%
CHEVRON CORP	Oil	1%
GENERAL MOTORS CO	Auto and Parts	1%
SANTA FE PACIFIC CORP	Transportation	1%
UNION PACIFIC CORP	Transportation	1%
MAGNOLIA PETROLEUM CO.	Oil	1%

1930

Company Name	Sector	Share of Total Mkt Cap
AT&T CORP	Telecom	3%
GE	Aerospace/Defense	2%
GENERAL MOTORS CO	Auto and Parts	2%
EXXON MOBIL CORP	Oil	2%
MARATHON	Oil	2%
DU PONT (E I) DE NEMOURS	Chemicals	1%
CONSOLIDATED EDISON INC	Utilities	1%
CITICORP	Banks	1%
TRANSAMERICA CORP. (LOS ANGELES, CA)	Banks	1%
PENN CENTRAL CO	Transportation	1%

Source: Bridgewater Associates

Many of these companies stayed on top for decades. Post World War Two and the rise of consumerism, retailers like Sears also entered the top 10 market stocks.

1940

Company Name	Sector	Share of Total Mkt Cap
AT&T CORP	Telecom	6%
GENERAL MOTORS CO	Auto and Parts	4%
DU PONT (E I) DE NEMOURS	Chemicals	4%
EXXON MOBIL CORP	Oil	2%
GE	Aerospace/Defense	2%
R R REALISATIONS LTD	Aerospace/Defense	2%
TEXAS PACIFIC LAND TRUST	Real Estate	2%
CREOLE PETROLEUM CORP	Oil	1%
UNION CARBIDE CORP	Chemicals	1%
HUMBLE OIL & REFINING CO.	Oil	1%

1950

Company Name	Sector	Share of Total Mkt Cap
AT&T CORP	Telecom Services	4%
GENERAL MOTORS CO	Auto and Parts	4%
DU PONT (E I) DE NEMOURS	Chemicals	3%
EXXON MOBIL CORP	Oil	2%
HUMBLE OIL & REFINING CO.	Oil	2%
UNION CARBIDE CORP	Chemicals	1%
GE	Aerospace/Defense	1%
CREOLE PETROLEUM CORP	Oil	1%
SEARS ROEBUCK & CO	Retailers	1%
CHEVRON CORP	Oil	1%

Source: Bridgewater Associates

In the 60s, chemicals companies lost their stock market dominance as the economy shifted away from manufactured goods to services, and research linked them to health issues, damaging their reputations. Auto companies like Ford and GM remained dominant in the 60s, though that started to fade in the 70s due to greater competition and slowing demand. Tech businesses such as IBM, Xerox, and Eastman Kodak started their ascent in the 1960s.

1960

Company Name	Sector	Share of Total Mkt Cap
AT&T CORP	Telecom Services	5%
GENERAL MOTORS CO	Auto and Parts	5%
DU PONT (E I) DE NEMOURS	Chemicals	4%
EXXON MOBIL CORP	Oil	3%
GE	Aerospace/Defense	3%
INTL BUSINESS MACHINES CORP	Computer Services	2%
MARATHON	Oil	2%
TEXACO INC	Oil	2%
FORD MOTOR CO	Auto and Parts	2%
UNION CARBIDE CORP	Chemicals	1%

1970

Company Name	Sector	Share of Total Mkt Cap
INTL BUSINESS MACHINES CORP	Computer Services	6%
AT&T CORP	Telecom	4%
GENERAL MOTORS CO	Auto and Parts	3%
EASTMAN KODAK CO	IT Manufacturers	2%
EXXON MOBIL CORP	Oil	2%
SEARS ROEBUCK & CO	Retailers	1%
INFORMATION DISPLAYS INC	IT Manufacturers	1%
XEROX HOLDINGS CORP	IT Manufacturers	1%
PAUL REVERE CORP	Life/Health Insurance	1%
TEXACO INC	Oil	1%

Source: Bridgewater Associates

By 1980, oil stocks were back on top, thanks to an inflationary decade that saw oil prices soar. Six of the top 10 stocks were in the oil industry by then. High inflation impacted consumer demand for many companies, from retailers like Sears to the automakers.

The 1990s witnessed a very different decade as inflation growth subsided. Oil companies lost their dominance. Pharmaceutical companies including Merck and Bristol-Myers entered the top 10 stocks, with the discovery of blockbuster drugs like Merck's hepatitis B vaccine.

1980

Company Name	Sector	Share of Total Mkt Cap
INTL BUSINESS MACHINES CORP	Computer Services	4%
AT&T CORP	Telecom Services	3%
EXXON MOBIL CORP	Oil	3%
GENERAL MOTORS CO	Auto and Parts	1%
SCHLUMBERGER LTD	Oil	1%
AMOCO CORP	Oil	1%
GE	Aerospace and Defense	1%
MOBIL CORP	Oil	1%
STANDARD OIL CO	Oil	1%
ATLANTIC RICHFIELD CO	Oil	1%

1990

Company Name	Sector	Share of Total Mkt Cap
EXXON MOBIL CORP	Oil	6%
INTL BUSINESS MACHINES CORP	Computer Services	5%
GE	Aerospace and Defense	5%
AT&T CORP	Telecom Services	4%
ALTRIA GROUP INC	Tobacco	3%
MERCK & CO	Pharmaceuticals	3%
AMOCO CORP	Oil	3%
BRISTOL-MYERS SQUIBB CO	Pharmaceuticals	3%
NABISCO GROUP HOLDINGS CORP	Food Producers	2%
DU PONT (E I) DE NEMOURS	Chemicals	2%

Source: Bridgewater Associates

By 2000, tech was ascendant, with five businesses (Microsoft, Cisco, Intel, IBM, and Lucent) in the leading 10 stocks by market cap. Walmart made its first appearance as a megacap. Meantime, Citigroup, following the merger of Citicorp and Travelers Group, became the first bank to make the list since 1930.

By 2010, the tech bubble had burst, and the world was still recovering from the worst financial crisis since the Depression. More defensive companies (Berkshire, Walmart, Procter & Gamble, and Johnson & Johnson) made it into the top 10 stocks. GE started to slip as acquisitions from a prior CEO Jack Welch turned awry. Telecom companies like AT&T declined due to the fading relevance of landlines over cellular networks, anti-trust regulation removing longstanding barriers to entry, and the rise of new cellular and internet-focused players.

2000

Company Name	Sector	Share of Total Mkt Cap
MICROSOFT CORP	Computer Software	3%
GE	Aerospace and Defense	3%
CISCO SYSTEMS INC	IT Components	2%
INTEL CORP	Semiconductors	2%
EXXON MOBIL CORP	Oil	2%
WALMART INC	Retailers	1%
INTL BUSINESS MACHINES CORP	Computer Services	1%
CITIGROUP INC	Banks	1%
MERCK & CO	Pharmaceuticals	1%
LUCENT TECHNOLOGIES INC	IT Components	1%

2010

Company Name	Sector	Share of Total Mkt Cap
EXXON MOBIL CORP	Oil	2%
MICROSOFT CORP	Computer Software	2%
WALMART INC	Retailers	1%
PROCTER & GAMBLE CO	Personal Care	1%
BERKSHIRE HATHAWAY	Investment Companies	1%
APPLE INC	IT Manufacturers	1%
JOHNSON & JOHNSON	Pharmaceuticals	1%
GE	Aerospace and Defense	1%
ALPHABET INC	Internet Services	1%
INTL BUSINESS MACHINES CORP	Computer Services	1%

Source: Bridgewater Associates

The 2020s have been dominated by the IT companies, with incredible growth from social media, smartphones, and software. The leading five stocks were all tech firms.

2020

Company Name	Sector	Share of Total Mkt Cap
APPLE INC	IT Manufacturers	4%
MICROSOFT CORP	Computer Software	4%
AMAZON.COM INC	Internet Services	3%
ALPHABET INC	Internet Services	3%
META PLATFORMS INC	Internet Services	2%
BERKSHIRE HATHAWAY	Investment Companies	2%
VISA INC	Business Services	1%
JPMORGAN CHASE & CO	Banks	1%
JOHNSON & JOHNSON	Pharmaceuticals	1%
WALMART INC	Retailers	1%

Source: Bridgewater Associates

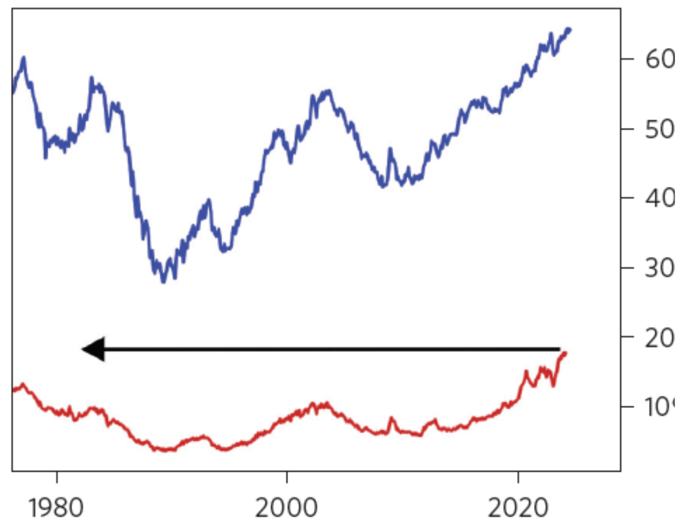
Today's Champions

Company	Sector	Mkt Cap Share	Earnings Share	Analyst Consensus LTG (Bias-Adj)
MICROSOFT CORP	Software	5.5%	3.9%	9.9%
APPLE INC	Technology Hardware	5.3%	3.9%	8.2%
NVIDIA CORP	Semiconductors	4.8%	2.3%	7.1%
ALPHABET INC	Internet Services	3.8%	4.1%	12.6%
AMAZON.COM INC	Internet Services	3.3%	1.8%	13.1%
META PLATFORMS INC	Internet Services	2.1%	2.2%	10.4%
LILLY (ELI) & CO	Pharmaceuticals	1.4%	0.4%	15.2%
BROADCOM INC	Semiconductors	1.1%	0.3%	3.5%
JPMORGAN CHASE & CO	Banks	1.0%	2.4%	0.3%
TESLA INC	Autos	1.0%	0.2%	7.9%

Source: Bridgewater Associates

Global portfolios hold more US megacaps than ever

The current concentration of the US market has implications for Australian investors too. The leading 10 stocks in the US not only make up almost one-third of the US total market cap but they also account for close to 20% of the global total market cap – the highest in more than 50 years. In other words, anyone investing overseas is likely to have high exposure to these stocks.



Source: Bridgewater Associates

In my article this week, I look back on [my investing over the past 25 years](), especially early on, and one recurring theme stands out: a desire to be proven right. As a buyer of an asset, I'd like to think that I have some kind of edge versus other investors, especially those who are selling to me. However, taken too far, the desire to be proven right can be costly. Everyone has cognitive biases like this, and the key is to have an investment plan that protects us from acting on our worst instincts.

James Gruber

Also in this week's edition...

One of Warren Buffett's most successful investments is also one of his oldest. Buffett bought confectionery company, See's Candies, more than 50 years ago. the business is still going strong and **John Rekenthaler** believes Buffett's investment illustrates that great stocks need not be growth companies.

As superannuation balances continue to swell, a common question that super funds are getting is: what happens to my super when I die? It's an important issue and why understanding how to plan your super death benefits and what steps to take may make things clearer and easier for family members and other beneficiaries. **UniSuper's Brooke Logan** offers a great overview on estate planning and super.

One small bet on a speculative stock isn't so bad, right? Think again, says **Geoff Saab**. He says historical evidence tells us that these high-risk gambles, on average, don't pay off. And, importantly, we don't stop at just one speculative stock - we'll more often than not buy more.

Bonds have had a terrible time of it in recent years, though 2024 has seen a minor uptick. Perhaps investors are sniffing out better times ahead as interest rates near their peak. **Vanguard's Jean Bauler** says this investor positioning makes sense because bonds typically perform strongly in the years following a peak in rates.

What was the best performing asset this year in US dollar terms to the end of July? If you guessed US stocks, you'd be incorrect. The right answer is gold. The yellow metal is up more than 30% year-to-date and seems to now be getting on retail investor radars. **Ray Gia** looks at why gold warrants an allocation in investor portfolios.

Seemingly the whole of Australia revelled in the feats of our athletes at the Olympic Games, especially the gold medallists. But did any of you caste an eye over the silver or bronze medallists? I did, and I noticed that bronze medallists seemed a lot happier than the silver medallists with their accomplishments. **Tony Dillon** suggests that I wasn't just imagining this, as scientific evidence backs up my observation. And Tony says the phenomenon has implications for investors too.

Two extra articles from Morningstar this weekend. Joseph Taylor highlights two high quality ASX bargains and a banking growth story where investors may be too optimistic.

Lastly, in this week's whitepaper, **Clime's John Abernethy** provides a detailed market outlook in his annual letter to investors.

Being right versus making money

James Gruber

If I look back on my investing over the past 25 years, especially early on, one recurring theme has been a desire to prove that I'm right. That I'm right and the market is wrong. That I'm right and another investor is wrong. That my thinking and logic is superior to others. That I know something that other investors don't.

In a way, it makes sense. As a buyer of an asset, I'd like to think that I have some kind of edge versus other investors, especially those who are selling to me. However, taken too far, the desire to be proven right can be costly.

That desire has led me to hold onto losing stocks for too long. It's led me to double down on losing stocks which never recover. And it's led me to sell stocks which are up 50%, because I've been proven 'right', only to see these same stocks rise a further 200%.

The desire to be proven right reflects my personality. I often see things in black and white, which results in an 'us-against-them' mentality, stubbornness, and being judgmental. Though I've managed to temper these traits through the years, they're still there, waiting to express themselves if allowed.

We all have cognitive biases

We all have cognitive biases or blind spots. A cognitive bias is the tendency to make decisions or act in an unknowingly irrational way. In my case, the desire to be proven right is known as confirmation bias. This bias essentially means that my brain, like everyone's, loves to be right and I'll interpret any information as evidence to support what I already believe.

If I think a company has a fantastic future, I'll tend to take any new information about the business as evidence to reinforce my positive view. That's irrational, and in investing, it's dangerous.

Cognitive biases, and how they relate to finance, comes under the umbrella of behavioural economics. This field of study has become increasingly popular in the investing world over the past few decades.

It's great to be aware of psychological biases, yet the crucial part is to prevent these biases from impacting what every investor is trying to do: to make money.

What things can we do to protect ourselves from our worst instincts? I recently happened upon a book which gave some fascinating insights into the best ways to do this.

The Art of Execution

The book in question is *The Art of Execution* by Lee Freeman Shor. Shor is a former fund manager at UK-based Old Mutual Global Investors.

Between 2006 and 2013, Shor ran a 'Best Ideas' portfolio. He gave 45 of the world's best investors between US$20 and US$150 million each. He had two conditions: that they own a maximum of 10 stocks at any one time, and that he had complete transparency into each trade and investment that they made.

Over the seven years of the fund, the 45 managers made 1,866 investments and 30,874 trades. Shor's study of what the managers did is the basis for the book.

Some of the initial findings surprised Shor. The managers, regarded by him as the best of the best, made money on only 49% of their investments. Some had a success rate of only 30%. Yet, despite this, almost all the managers made money overall.

Other statistics from the study include:

- Out of the 941 losing investments, 2% lost more than 80% and 14% lost more than 40%.
- Of 131 investments that fell more than 40%, only 21 went on to return over 100% from the bottom. None broke even overall.
- Only 11% of winning stocks gained more than 50%. Only 1% returned more than 100%. A strict adherence to price targets was the leading reason why there were so few big winners.
- 59% of the losing investments made money after they were sold.
- 64% of losing investments were sold within 6 months, 42% were sold within 3 months, 17% were sold after one year.
- 66% of winning investments were sold for a 20% profit or less. Of those, 61% rose after it was sold.
- Only 1% of investments returned over 100%.
- 68% of the time managers sold for a profit if a stock outperformed the benchmark by up to 23%.

Out of this mass of numbers, Shor found a pattern: the performance of the managers was largely dictated by what they did *after* they bought a stock. Though the initial purchasing decisions were important, what mattered most was how these managers dealt with winning and losing positions over time.

The 5 types of investors

From his analysis, Shor broke down investors into five categories based on how they reacted to winning and losing positions. Investors dealt with losses by being either 'Rabbits', 'Assassins', or 'Hunters'. And investors reacted to gains by either being 'Connoisseurs' or 'Raiders'.

The Rabbits. The Rabbits did nothing when they were losing money. They failed to avoid massive losses and their returns were hurt from it. Shor said what these investors had in common was the ability to justify their losing positions, no matter what:

"They were capable of constantly adjusting their mental story and time frame so that the stock always looked attractive … it never ceased to amaze me how many times the same two villains popped up in the stories told by Rabbits harboring a losing position: Mr. Market ('The market is being stupid') and his sidekick Mr. Unlucky ('It wasn't my fault, I was unlucky because of XYZ that no one could have foreseen')."

Some of the statistics previously quoted show that when stocks go down a lot, most never come back. That makes staying pat with a losing position a bad idea. According to Shor, it's better to take action, by either cutting the position, or increasing it.

The Assassins. The Assassins had to discipline to quickly sell losing positions. They created two preset rules that dictated what they did with losing stocks:

- Sell at a preset loss percentage – most were between 20-33%.
- Sell after a preset time – six months was the average time. If a stock price was stagnant or not recovering by the preset time, the company was sold.

Shor quoted a 2006 academic study which found that the highest returns were earned by investors who sold out of losing positions the most.

The Hunters. The Hunters were investors who increased positions when they were losing money, and consequently averaged down. Many had a preset plan to average into an investment. They initially bought a

small position in the stock, and if it rose, it likely stayed small. If the price fell, they often bought more. Many investors added to their positions after a 20-33% price decline.

Some even had preset rules for new positions, buying one third of the amount for an initial position, one third of the amount if the price fell to a certain limit, and one third if it fell further.

Unfortunately, Shor doesn't detail how the Hunters' strategy performed overall.

However, he does suggest that investors should seek to be Assassins or Hunters when losing money on a stock and avoid being Rabbits at all costs. To do this, he believed that it's important to have a plan, the discipline to stick to it, and a bias to action when confronting a losing position.

Shor also broke down the managers into two categories – Raiders and Connoisseurs – based on how they handled winning investments.

The Raiders. These investors often sold positions too early for a small profit. This meant they missed out on larger gains. But it also resulted in them having to find alternative investments or sitting unproductively in cash. Raiders had a high success rate with their investments but failed to make much money because their gains were too small, and a large loss often wiped out those small gains. Worse still, many of the stocks that they sold early went on to make much larger gains afterwards.

Shor said academic studies showed that cutting winners was a bad strategy:

"Stock market returns over time show kurtosis, which means fat tails are larger than would be expected from a normal distribution curve. This means that a few big winners and losers distort the overall market return – and an investor's return. If you are not invested in those big winners your returns are drastically reduced."

In other words, don't be a Raider.

The Connoisseurs. These investors let their winners run. Interestingly, the Connoisseurs had a lower success rate, with four out of ten positions making money. However, their winners won big, and made enough to cover the losers, and then some.

These investors had a process which helped them with winning positions. They were either quick to sell losers or comfortable adding to positions at lower prices which ended up being winners. They also gradually trimmed winners by taking small profits over time.

In sum, Shor thought that investors should strive to be Connoisseurs when making money on a position and Assassins or Hunters when losing money. Based on his study, investors should avoid being Rabbits or Raiders.

The winner's and loser's checklist

Shor distilled his study into what he termed the habits of success. He said the five winning habits of investment titans included:

1. Best ideas only
2. Position size matters
3. Be greedy when winning
4. Materially adapt when you are losing
5. Only invest in liquid stocks

The five losing habits of investors included:

1. Invest in lots of ideas
2. Invest a small amount in each idea
3. Take small profits
4. Stay in an investment idea and refuse to adapt when losing
5. Do not consider liquidity

Lessons for the individual investor

You can agree or disagree with Shor's conclusions, though there are some broader lessons for individual investors from the book.

Shor's premise that a key marker for whether investors make money is how they react to winning and losing positions is powerful. It means that having an investment plan is fine, but how you execute it is more important.

Having checklists, as Shor urged, is useful. They can help maintain discipline, reduce emotional decision making, and create winning habits, in Shor's words.

Going back to my original desire for often wanting to be right, that cognitive bias can quickly feed into poor decision making and losing money without rules or checklists to prevent that from happening.

Therefore, my biggest takeaway from the book is that even most investors, even the very best, need guardrails to protect themselves from their own worst instincts.

James Gruber is the Editor of Firstlinks.

Warren Buffett's sweetest investment

John Rekenthaler

Experienced investors do not seek danger, but they may accept uncertainty in exchange for growth potential. Technology companies illustrate the principle. Most fall by the wayside, but the ones that live to dominate their rivals can create large fortunes by adding boatloads of new customers. The more buyers feeding the top line, the fatter the bottom line.

Not every company succeeds through expansion, though. There are other ways for businesses to enrich their shareholders. A prime example is See's Candies, owned by Berkshire Hathaway BRK. A. Despite increasing its customer base only glacially, it has been a hugely successful investment.

Background

Berkshire Hathaway's 2007 shareholder letter provides the essential details. In 1972, the company paid $25 million to buy the privately held confectioner. That year, See's sold 16 million pounds of candy, generating $30 million in revenues and "less than $5 million in pretax earnings." (Another source is more specific, citing a $4.0 million pretax profit, which I used for my analysis.) Thirty-five years later, its unit volume was 31 million pounds.

At 1.9%, the company's annualized growth of candy production barely exceeded the rise in US population. Had See's reinvested each year's profits back into its business and adjusted both its candy prices and costs to match the prevailing inflation rate, 1.9% would have been its annual real return. All the company's profit growth would have come from selling more pounds.

Obliging customers

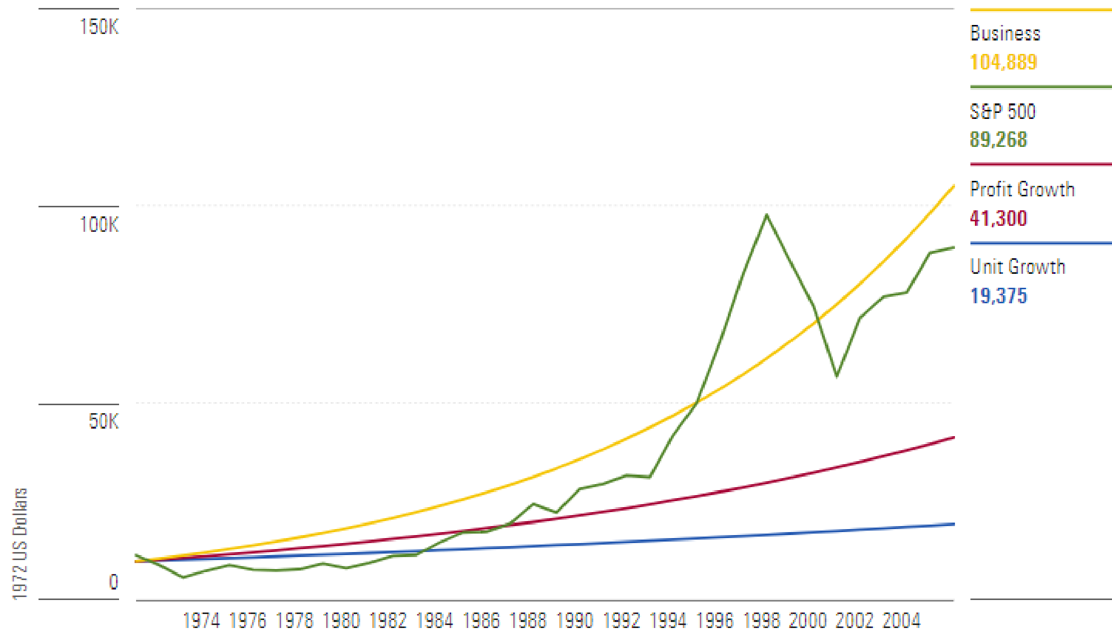
Fortunately for Berkshire Hathaway shareholders, See's raised its prices by more than the inflation rate. Charlie Munger once stated, "Over time we just discovered that we could raise prices by 10% a year and nobody cared." He exaggerated. If See's management had tracked inflation for the first decade after its acquisition, then hiked its prices by 10% annually since 1982, a single pound of See's candy would now cost $274. It does not.

See's did enough. From 1972 through 2007, it increased its prices by 0.8 percentage point per year above inflation—5.5% for its sweets, as opposed to 4.7% for the Consumer Price Index. That doesn't seem like much. However, thanks to the twin magics of compounding and operating leverage, that modest annual raise doubled the company's profit margin. As the firm's unit sales had also doubled, its real pretax earnings quadrupled.

3 forecasts for See's Candies

A further consideration before considering the performance of See's Candies is valuation. Berkshire Hathaway paid 6.25 times pretax earnings for a business that became more profitable than anybody expected. In addition, corporate tax rates declined over that period, thereby boosting the worth of pretax earnings. Consequently, See's would have commanded a much higher price multiple in 2007 than it did when purchased. I estimate a ratio of 16 times.

Let’s assemble this information. The chart below compares three projections for the ongoing market value of See’s Candies to the total return of the S&P 500, over the period from 1972 through 2007. The forecasts consist of 1) unit growth, 2) profit growth, and 3) a full corporate assessment, which includes the effect of its higher price/earnings multiple, per my assessment.



My guess is that you’re not terribly impressed. On its operational results alone, See’s Candies could not keep up with the S&P 500. Admittedly, Warren Buffett bought the business at a discount, so if he had sold it he would have been slightly ahead of the pack. However, this analysis does not justify my statement that turtles could run like hares. Above average is not the same as excellent.

But remember the initial assumption that See’s reinvested its profits back into the business? It was almost entirely false. The quiet part of the See’s story—and it’s the very best part—is that its operations required almost no outlays. (Such can be the benefit of sluggish unit growth.) From 1972 through 2007, See’s Candies generated $1.35 billion in pretax profits but spent a mere $32 million on capital improvements.

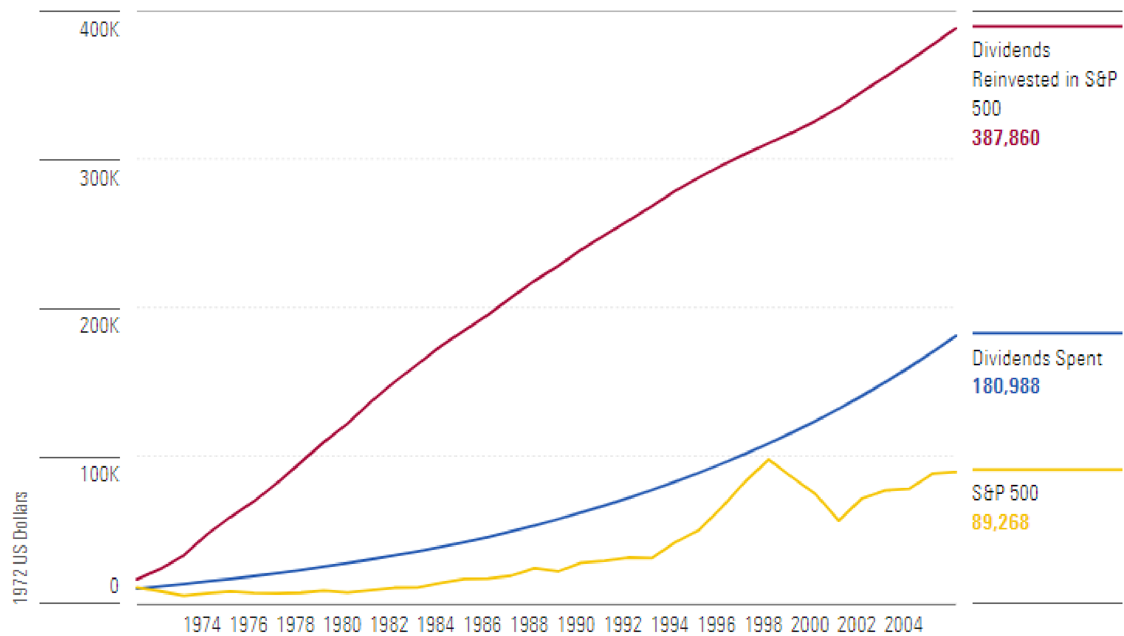
See’s Candies: with dividends

In Berkshire Hathaway’s case, that excess cash went into the corporation’s coffers. Had See’s been a public company, those moneys would have either been distributed as dividends or squandered. Given how well See’s is managed, let’s assume dividends. We must now therefore include them to make a fair performance comparison, since the S&P 500's total returns (as with all indexes) account for dividends.

And the dividends would have been large indeed! In 1972, after funding its modest capital allocation and paying its far greater tax bill (that year’s corporate tax rate was 48%), See’s would have had $1.95 million available to distribute, making for a 7.8% annual yield. A sweet deal.

This time, I present two versions for the putative stock market performance of See’s. The relevant comparison is with its dividend payouts redistributed into the stock market—which, as stated above, is how the S&P 500's returns are calculated. (I thought about reinvesting the dividends into See’s itself, but that was one hypothetical step too far.) A more conservative approach is to assume that the dividends generate no further profit because they are immediately spent.

Below are the results for each method. Once again, all results are presented in 1972 dollars.



This time, I can convincingly claim victory. By my accounting, if See's Candies had been a publicly traded company, an investor who bought its shares in 1972 and held for the next 35 years while reinvesting the company's copious dividends back into the stock market, would have turned a $10,000 initial investment into more than $387,000 after adjusting for the effect of inflation. That means $1.9 million in nominal terms.

Conclusion

This isn't ancient history. Since 2007, See's Candies has boosted its margins more aggressively, by raising its prices by an annualized 5.5%, while inflation has averaged 2.5%. For more than half a century, the company's essential story has been unchanged. Year by year, See's earns more from its existing customers while throwing off oodles of excess cash. Those moneys can be invested elsewhere. See's does not need them.

This article, of course, only offers a hint of the many factors that separate winning from losing investments. Besides top-line growth, pricing policies, and capital requirements, which we discussed today, other major considerations include cost containment, acquisitions, and share dilution. But I hope to have illustrated a broader point: Great stocks need not be growth companies, as the term traditionally is defined.

John Rekenthaler has been researching the fund industry since 1988. He is a columnist for Morningstar.com and a member of Morningstar's Investment Research Department. The opinions expressed here are the author's. The author owns shares in one or more of the companies mentioned in this article. This article is general information and does not consider the circumstances of any investor. Originally published by Morningstar and edited slightly to suit an Australian audience.

What happens to your super when you die?

Brooke Logan

An often-asked question from our members is "what happens to your super when you die?". It's an important question. This is why understanding how to plan your super death benefits and what steps to take may make things clearer and easier for family members and other beneficiaries.

When you die, your superannuation (super) death benefits can be paid to anyone who meets the definition of 'dependant' under the Superannuation Industry Supervision (SIS) legislation and/or the Legal Personal Representative (LPR) (i.e. the trustee of your deceased estate).

Nominating beneficiaries with your super fund is the only way to direct your death benefits to the people you want to receive it. The steps you take will depend on your circumstances and who your intended beneficiaries are.

Nominating parents

If you want to leave your super to your parents, they need to meet the definition of dependants under the SIS legislation. This means they must be either financially dependent on you or be in an interdependent relationship. Otherwise, your parents could receive your death benefit if it's paid to your LPR and your Will stipulates that your parents will receive it.

Nominating young children

Children are 'dependants' under the SIS legislation. However, not all children are 'dependants' for tax purposes.

Children under 18 are considered dependants for tax purposes, so they can receive death benefits tax-free and have the option of receiving death benefits as a lump sum or, in some cases, as a pension.

If minor children are nominated directly, it is common practice for the benefits to be paid in trust to the child via a beneficiary trust, with the legal guardian as the trustee. Under the beneficiary trust, normally the trustee can invest all or part of the benefit on behalf of the child, and withdraw funds for the maintenance, betterment and education of the child. In practice, the trustee of the beneficiary trust pays for clothes, school fees, uniforms and supplies, sports or other out of school activities. Alternatively, you may consider nominating your LPR and in your Will setting up a testamentary trust to hold and distribute super benefits to your children.

Nominating adult children

Adult children who are not financially dependent may pay tax of up to 17% on the taxable component of a super death benefit (15% plus the 2% Medicare Levy). For this reason, when the beneficiary is not a dependant for tax purposes, directing the benefit via the estate can have tax advantages. A deceased estate is not an individual taxpayer and therefore does not pay the Medicare Levy (currently 2%). In addition, the benefit is not added to the beneficiary's assessable income, and thus does not affect entitlements they may be receiving based on their assessable income, such as Family Tax Benefit, child support, HELP debt repayment and Division 293 tax.

The trustee of the super fund cannot pay a death benefit pension to a child over age 25, unless they are disabled (as defined under s 8(1) of the Disability Services Act), so any payment can only be taken as a lump sum. This applies even if the child qualifies as a dependant for tax purposes under financial dependency or through an interdependent relationship.

Nominating a partner

For the purposes of SIS and taxation law, the spouse of a person includes a partner to whom they are married, in a registered relationship, or, lives with on a genuine domestic basis in a relationship as a couple. If the couple don't live together and are unable to meet any of these definitions (or an exception) and there is no financial dependency, then the partner may be able to receive death benefits if the Will stipulates the partner will receive it.

When is a nomination invalid?

If a binding nomination is invalid or there is a non-binding nomination, then the fund has the discretion to decide who receives the benefits.

A binding nomination may be invalid if it doesn't comply with the rules of the super fund or the SIS legislation. For example, if you nominate a non-dependant, such as a friend, a charity, or a dog, the nomination will be invalid. Similarly, if you nominate a dependant who predeceases you or ceases to be a dependant after you make the nomination, your nomination will become invalid.

For this reason, it's important to review and update your binding nomination/s if your circumstances change.

Directing super benefits to your Will

Nominating your LPR and directing your death benefits to your Will may be appropriate when you want to leave your super to non-dependants. You can also consider creating a testamentary trust to protect beneficiaries from creditors, family law claims, or spendthrift habits. It'll be important to consider who or whom would be appropriate to serve as the trustee of the testamentary trust. However, directing your super to your Will can have some drawbacks. For instance, super benefits will form part of the estate and may be subject to probate, legal challenges, and will take longer to be paid to the ultimate recipient.

How super funds process death benefit claims

As a superannuation fund, we're often asked what the process is for dealing with death benefit claims.

When a member of a super fund dies, the fund has the responsibility to pay the death benefits to the beneficiaries and/or the LPR. This process can be complex and time-consuming, depending on the type and validity of the nomination, the identity and number of the beneficiaries, and the amount and nature of benefits. Here are some of the steps and challenges involved.

Verifying the death

The first step is to verify the death of the member and obtain a copy of the death certificate. If the member has death cover within the fund, a claim will also need to be lodged with the fund's insurer. It may take some time for the fund's insurer to assess the claim.

Identifying the beneficiaries

The fund must identify the beneficiaries of the death benefits. This may involve checking the member's beneficiary nomination form/s, if there is one, and determining if it is valid and binding.

If the nomination is invalid, non-binding, or does not exist, the fund has the discretion to decide who receives the benefits, based on the SIS legislation and the fund's trust deed. The fund may need to conduct further investigations and go through a process to identify, locate and review potential beneficiaries. Laws regarding estates and what happens when a person dies intestate vary from state to state.

Some of the documents the fund may need to review a death claim include:

- Death certificate
- Copy of the Will and Probate, or Letters of Administration where a member has passed away without a Will
- Proof of Identity for the beneficiaries
- Proof of the relationship between the beneficiary/s and the member

Calculating and paying the benefits

The final step is to calculate and pay the death benefits to the beneficiaries. This may involve valuing the member's account balance, including any insurance proceeds. The fund may also need to determine the tax implications of the payment, such as whether the beneficiaries are dependants for tax purposes, and whether the benefits are paid as a lump sum or a pension. The fund should communicate with beneficiaries and provide them with information about their options and rights.

Planning ahead

The best thing to do is plan. For many people, making a beneficiary nomination is relatively straight forward, but depending on your circumstances you may need to get professional advice. Also important is to ensure that your nominations are up to date and to review them regularly and if your circumstances change.

Brooke Logan is a technical and strategy lead in UniSuper's advice team. UniSuper is a sponsor of Firstlinks. Please note that past performance isn't an indicator of future performance. The information in this article is of a general nature and may include general advice. It doesn't take into account your personal financial situation, needs or objectives. Before making any investment decision, you should consider your circumstances, the PDS and TMD relevant to the financial product, and whether to consult a qualified financial adviser.

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Why buying speculative stocks often proves irresistible

Geoff Saab

One small bet on a speculative stock isn't so bad, right?

I've seen all sorts of "next big things" over the years—before I knew better, many of them were in my own portfolio! Early-stage biotech. Junior gold miners. Fledgling software companies. Near-bankrupt retailers primed for a turnaround. Revolutionary medical equipment manufacturers. The list goes on and on. The most speculative of them are often called penny stocks, but they can be priced far higher than a dollar. The principle is the same. I've seen these companies trading for hundreds of dollars per share and still retain the spirit of the penny stock.

Low stock prices seem to draw people. As the thinking goes, it's easier for a 10-cent stock to go to a dollar than it is for a 10-dollar stock to go to a hundred.

No matter what the market price of the stock, if there's one thing all of these companies have in common, it's a dream of multiplying your money several times over via a great story, a promotional management team, and promises of vast riches.

Let's call them 'lottery stocks'. They're close cousins to the venture capital lottery tickets we talked about earlier—the promise is that this one investment could change your life.

Why it doesn't work

But historical evidence tells us that these high-risk gambles, on average, don't pay off. There's no definitive reason for this to be the case, but my own theory is that the lottery ticket aspect of these stocks makes them extraordinarily attractive to speculators, which means their value gets bid up higher than it should. For some reason, this is often worse with the lowest-priced stocks. (And if you doubt this, ask yourself if you would stop yourself from buying a stock if it cost you 11 cents a share instead of 10 cents a share, and then ask yourself if you would do the same for a stock that was $110 versus $100. We rationalize away the cent as meaningless, even though the difference in both cases is a 10% premium.)

So let's say you're behaving yourself, holding a portfolio that is 98% made up of intelligent, blue-chip, quality companies. You'd like to gamble with that last 2%.

And I won't stop you. I've done the same. But before you go ahead with it, consider the potato chip.

When's the last time you had just one?

You see, the lottery stock purchase is a lot like a slot machine. Have you ever seen anyone pull once and walk away?

So let's play out a couple of possible scenarios.

You could bet on the lottery stock and lose. You told yourself you would just walk away. But that doesn't happen. Prospect theory tells us that "a person who has not made peace with his losses is likely to accept gambles that would be unacceptable to him otherwise." So after experiencing a loss, we are more likely to take on another large risk in order to recover that loss. Many of us know a person who has gone on tilt, emptying their bank account in a disastrous casino adventure. Some of us have even been that person. This phenomenon explains it.

On the other hand, you could bet on that lottery stock and win. In this case, overconfidence bias takes over. You're more inclined to take on that risk again. You might begin to think that the lottery stock game is easy, or that you have some sort of system or specific insight that works. The technical term for this is 'dumb luck', and while I'll certainly take it, I wouldn't bet that it will continue in the future. Over time you are likely to give back all of your winnings.

Another possible outcome is that the stock does nothing. It might vacillate between 5 and 15 cents for years. It might occasionally pop to 30 or 40 cents—and you won't sell, of course, because you think it could be the start of a huge move… until it drops back down to 10 cents. As the lottery stock languishes, you grow bored of the story, and years later just sell the damn thing to get it out of your portfolio. If you're lucky, you'll break even on it. It wasn't worth the opportunity cost of the money invested in it, or the time and mental bandwidth you wasted on it.

I get it, I've lived it

And what makes me an expert on lottery stocks? I've done everything I've just described. Been there, done that. Experienced the overconfidence, the disappointment, and the boredom. Over the years the only people I've seen reliably get rich off of these stocks are the ones issuing shares to themselves and selling them to people like you and me. It's a shady group of characters you wouldn't trust to return your pen after you lent it to them, let alone manage a company you own a piece of.

Once again, our behavioral foibles work against our best interests. If you're trying to eat healthy, don't fool yourself into thinking you can have just one or two potato chips. And if you're trying to invest intelligently, do your best to resist the call of the lottery stock.

Geoff Saab is the author of Low Risk Rules: A Wealth Preservation Manifesto, and writes a free newsletter at lowriskrules.substack.com.

With rates peaking, the time for bonds has come

Jean Bauler

Six months. That's roughly the time frame that the Reserve Bank's governor, Michele Bullock, has given for when the RBA's board is likely to feel more comfortable around cutting interest rates. Indeed, Australia may well be one of the last of the major developed countries to start cutting rates.

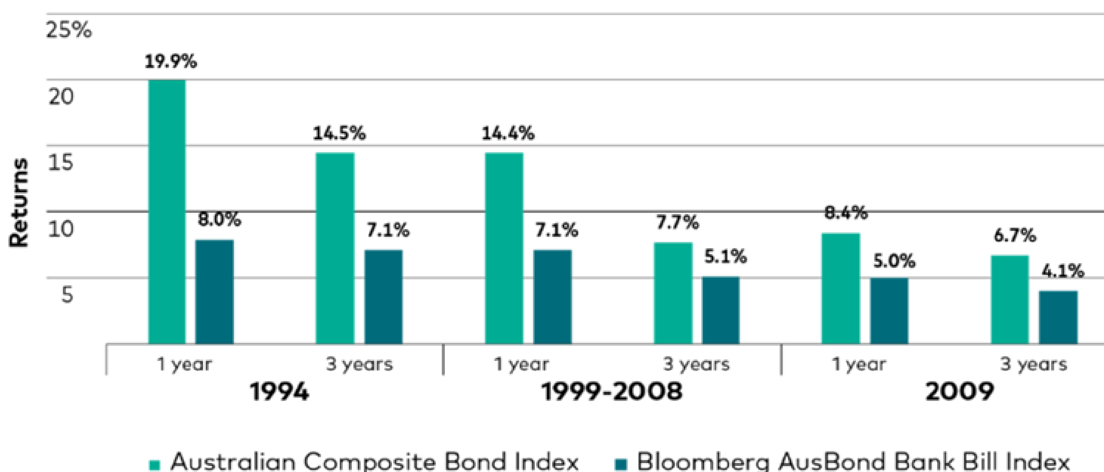
For investors seeking long-term diversification with high-quality bonds, it may be a case of make hay now while the sunshine from higher interest rates is still burning bright.

Bonds tend to outperform after rates hit their peak

While there may be flexibility around the timing of rate cuts in Australia – which will ultimately come down to how quickly inflation levels fall back inside the RBA's target band – it's likely we're at or near the end of the rate hiking cycle, which has historically been associated with a peak in yields. This is good news for bonds, which have typically performed strongly in the years following the peak.

What happens when rate hikes end?

Figure 1: Annualised performance following the rate hike cycle*



***Notes:* *1994* rate hiking cycle, which commenced July 1994 to first Tuesday of December 1994, so 30 November is used as a start date for 1994. *1998-2008* rate hiking cycle, which commenced October 1999 to first Tuesday of March 2008, so 29 Feb 2008 used as start date for 1998-2008 hiking cycle. *2009* rate hiking cycle, which commenced September 2009 to first Tuesday of November 2010, so 31 October 2010 used as a start date for 2009 hiking cycle.**
***Source:* Vanguard and Bloomberg**

For those entering the bond market now, there's an opportunity to enjoy historically higher yields while potentially benefitting from short-term price tailwinds when rates do start to fall.

Given that bonds have only recently emerged from a tumultuous period of rapidly rising rates, it's understandable that some investors may be cautious. Many investors may be waiting for the RBA and other central banks to finish hiking—or even begin cutting—before they jump back into bonds. But, as is also the case with equities, trying to time market movements is always a risky venture. Waiting for the 'right' moment to review your bond exposure may mean missing out on a price boost when expectations shift to looming rate cuts. Moreover, it could mean missing out on the rate peak and the full benefits from higher yields.

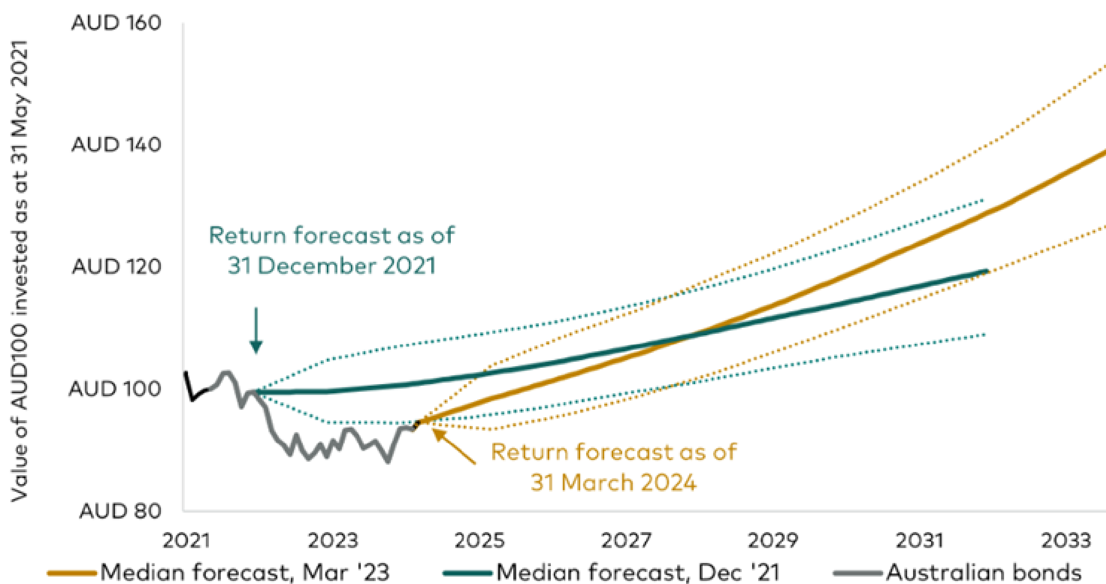
What if interest rates stay high?

Even when rates do move lower, we don't foresee a return to the COVID levels when Australian interest rates were at historical lows, nearing zero. That was an extraordinary time.

The return to sound money – when interest rates are above the rate of inflation – may be one of the most important developments in financial markets in the past two decades. According to Vanguard's research, the neutral (or equilibrium) rate has increased by around 1% on average across developed markets, mainly driven by ageing demographics and higher structural fiscal deficits. While higher-for-longer rates might be painful for borrowers, they're a good thing for investors over the long run, particularly for bond investors. In fact, we expect investors to be better off because of (not in spite of) higher rates.

As the chart below shows, bond prices were pushed down by rising rates in 2021 and 2022. However, higher yields and coupon payments make up for short-term principal losses over time. That's why we now expect bond investors who remain invested to be better off in end-of-period wealth terms by the end of the decade.

Figure 2: Australian bonds forecasts*



Important: *The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM are derived from 10,000 simulations for each modeled asset class. Simulations as of 31 December 2021, and 31 March 2024. Results from the model may vary with each use and over time. For more information, please click here.*

Notes: *The chart shows actual returns for the Bloomberg Australian Aggregate Bond Index along with Vanguard's forecast for cumulative returns over the subsequent 10 years as of 31 December 2021, and 31 March 2024. The dashed lines represent the 10th and 90th percentiles of the forecasted distribution. Data as of 31 March 2024.*
Sources: *Vanguard calculations, using 31 March 2024, VCMM simulations and data from Bloomberg.*

This doesn't mean that investors won't potentially realise losses in the short term as yields move around, or that they're guaranteed profits in the long term. But when assessing the impact of higher yields, your time horizon as an investor matters a lot.

Investors are returning to bonds

If we take a look at exchange traded fund (ETF) flows, it's clear that investors have been returning to the bond market. In 2023, strong renewed interest in bond ETFs saw fixed income flows reach almost 45% of total market flows. Australian bond ETFs received $3.81 billion in cash flows in 2023, a 37% improvement year on

year. Global bond ETFs also attracted $1.5 billion over the year, up 99% year on year. This momentum continued with a further $1.5 billion added across Australian and global bond ETFs in the first half of 2024.

We anticipate bond ETFs will remain popular with Australian investors throughout the remainder of 2024 and beyond, particularly as our domestic bond return expectations have substantially increased since 2022 from 1.3%–2.3% per annum to 4.1%–5.1% per annum over the next 10 years.

Similarly, for global bonds, we expect returns of 4.3%–5.3% per annum over the next decade, compared with a forecast of 1.6%–2.6% per annum when policy rates were low or, in some cases, negative.

With higher yields, the benefit to long-term investors of being invested in bonds should outweigh the cost of being a little early should yields remain flat or even edge up slightly before the rate cuts hit.

Timing the market is often harder than we think, and getting timing decisions wrong can mean limiting your returns in the long run. For most investors, a prudent asset allocation that includes both equities and bonds, matched with a long-term investment plan, may present a better chance for investment success.

* Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Jean Bauler is Head of Fixed Income at [Vanguard Australia](), a sponsor of Firstlinks. This article is for general information purposes only. Vanguard has not taken your objectives, financial situation or needs into account when preparing this article so it may not be applicable to the particular situation you are considering.

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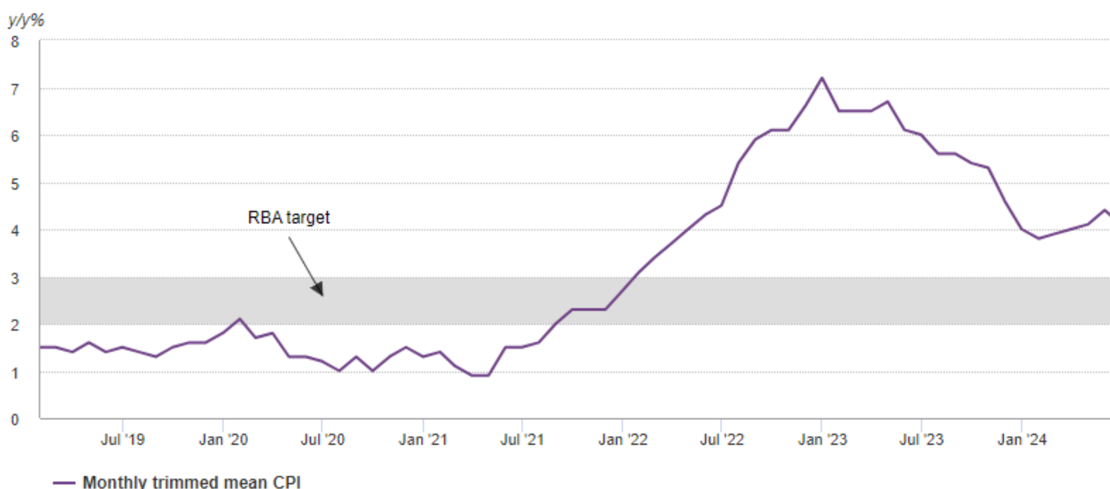
Gold's role in portfolios amidst rising interest rate volatility

Ray Jia

Following two consecutive months of hotter-than-expected Australian CPI prints, it was a surprise to many that June inflation eased (**Chart 1**). The headline June inflation (trimmed mean) came in at 4.1% y/y, down from 4.4% in May. Meanwhile, the RBA's Q2 trimmed mean inflation figure was down to 3.9% y/y, lower than both Q1's 4% and the consensus (4%).

Chart 1: Inflation pressure cooled marginally in June
Monthly Australian trimmed mean CPI & RBA inflation target*

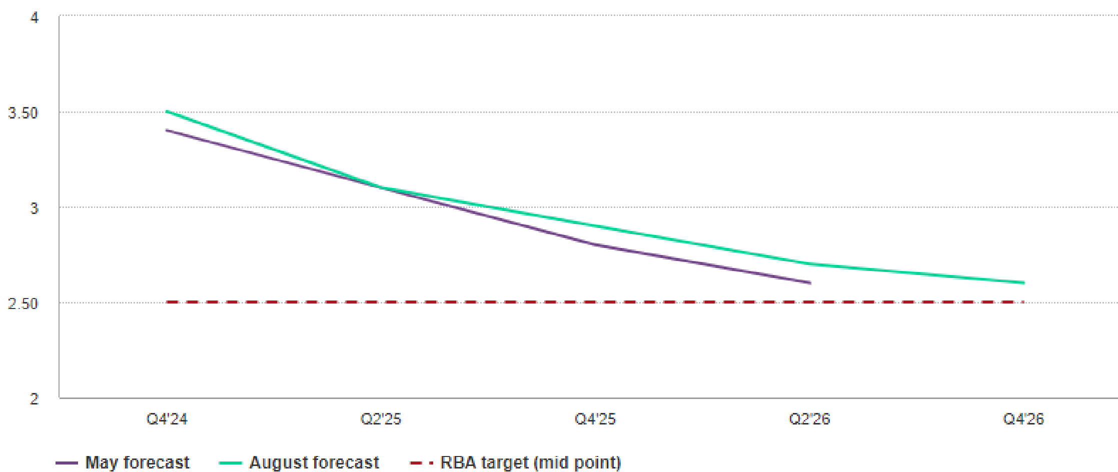


** Note: Trimmed mean inflation measures are preferred by the RBA, see [Consumer Price Index, Australia, June Quarter 2024 | Australian Bureau of Statistics (abs.gov.au)]()*
Sources: Bloomberg, World Gold Council; [Disclaimer]()

While inflation remains well above the RBA's target range of 2-3%, signs of deceleration encouraged investors. Following release of the June and Q2 inflation data, market expectations of the RBA's rate path took a 180-degree turn: from rate hikes to potential cuts by late 2024.

But these expectations were short-lived. The RBA monetary policy meeting on 6 August the following week dashed investor hopes by maintaining rates at their 12-year peak and stating that it expected inflation to take longer to return to target compared to prior forecasts (**Chart 2**). The bank cited a strong demand outlook, elevated wage growth and the still tight labour market as the main drivers behind its conclusion. At the media conference after the meeting, Governor Michele Bullock mentioned that there would be no cut on the agenda for the next six months and that the RBA will remain open to further tightening due to the upside risks of inflation.

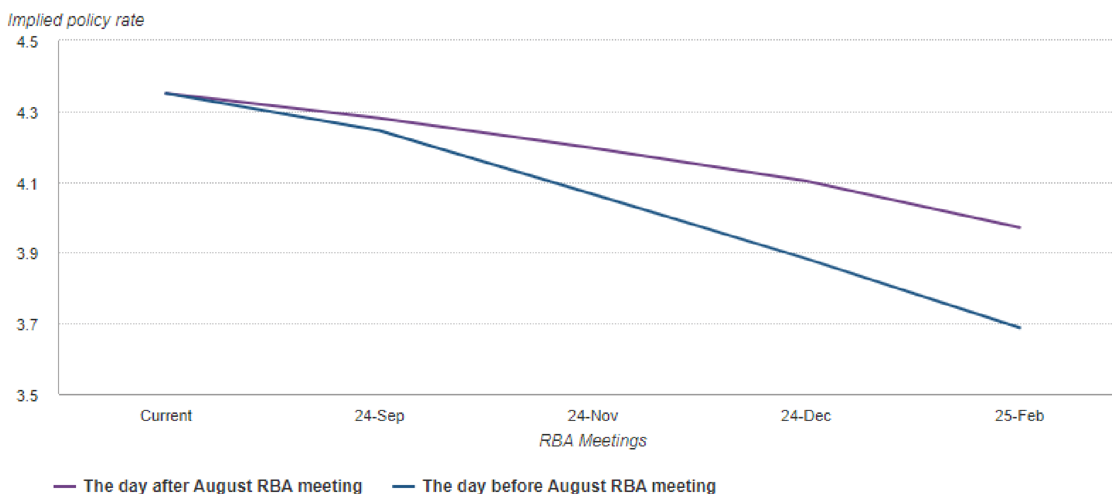
Chart 2: The RBA expects inflation to remain above target for longer
RBA forecasted CPI and RBA inflation target*



**Based on RBA monetary policy meeting materials in May and August.*
Sources: Reserve Bank of Australia, World Gold Council; Disclaimer

As a consequence, future rate path expectations in Australia have changed yet again. As shown in the below chart, the overall curve of future interest rates priced in by investors has shifted up notably (**Chart 3**).

Chart 3: Investors delay expectations of RBA rate cuts
Policy rate implied by cash rate futures on 5 August and 7 August



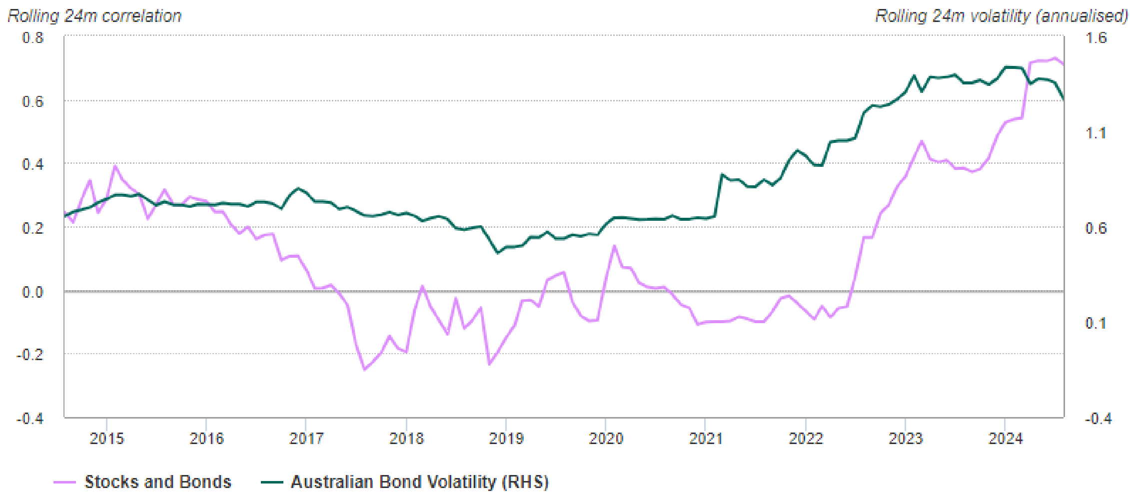
Sources: Bloomberg, World Gold Council; Disclaimer

What does this mean for Australian portfolios?

We believe that these events have two main implications. First, in the near term, when upside risks of inflation remain elevated, the correlation between bonds and equities is likely to stay high. We have been witnessing such a pattern between 2022 – when the RBA started hiking – and now (**Chart 4**).

Second, government bonds yields may become volatile depending on the course of inflation and on how much the central bank's sentiment shifts – similar to the pattern we have seen recently. While local bond volatility has already been pushed to a multi-year high, the aforementioned uncertainties may keep it elevated.

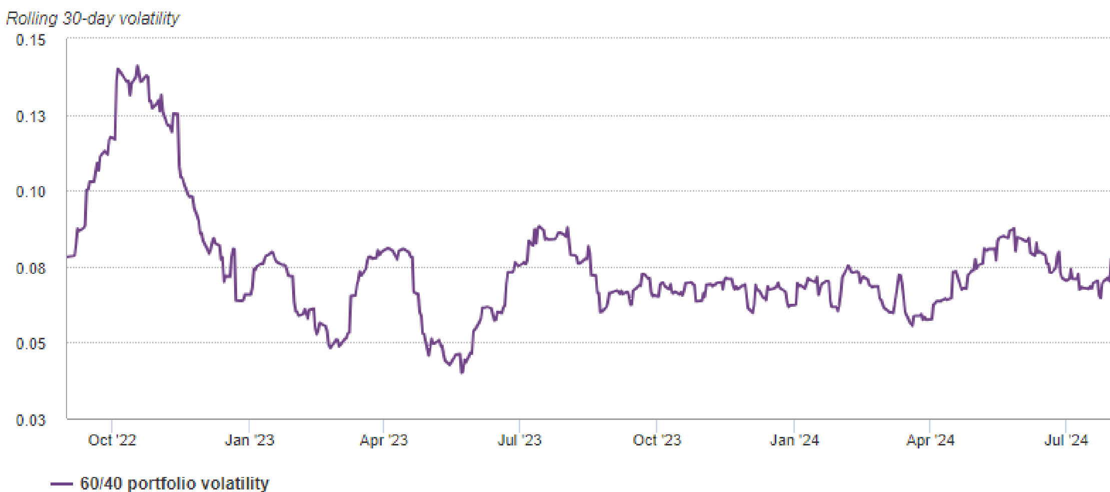
Chart 4: Heightened bond volatilities and a very high correlation between bonds and equities*



**Monthly data based on ASX/S&P 300 Index, Australian 10-year Government Bond Index and 10-year Australian Government Bond Yield between July 2014 and July 2024.*
Sources: Bloomberg, World Gold Council; Disclaimer

This will likely have implications for Australian portfolios. Recent rapid changes in yields, amid notable shifts in rate expectations and the turbulence in equities, have led to a volatility surge in a traditional 60/40 portfolio (**Chart 5**).

Chart 5: The volatility of a traditional 60/40 portfolio has been surging
Rolling 30-day volatility of a hypothetical portfolio (60% in Australian equities and 40% in 10-year government bond)*

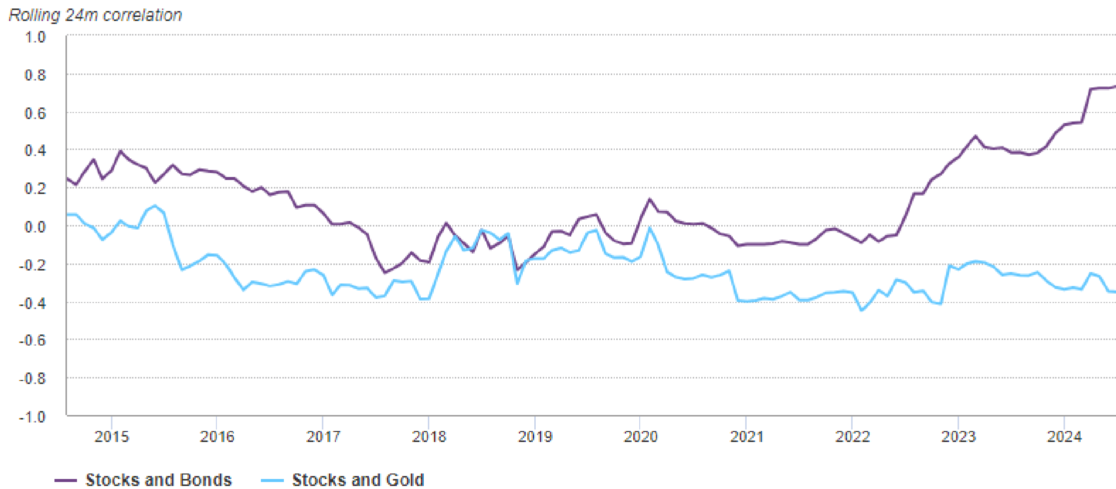


** Based on daily data of ASX/S&P 300 Index and Generic 1st Australian 10-year Government Bond future. As of 6 August, 2024.*
Sources: Bloomberg, World Gold Council; Disclaimer

Gold as a strategic component in Australian portfolios

In the face of rising volatilities, we believe gold can provide diversification benefits for Australian portfolios. Unlike bonds, gold has demonstrated a consistently low correlation with Australian equities (**Chart 6**). This is mainly because gold's valuation is not determined by any one country thanks to its diverse sources of demand – which spreads across regions and sectors – and supply.

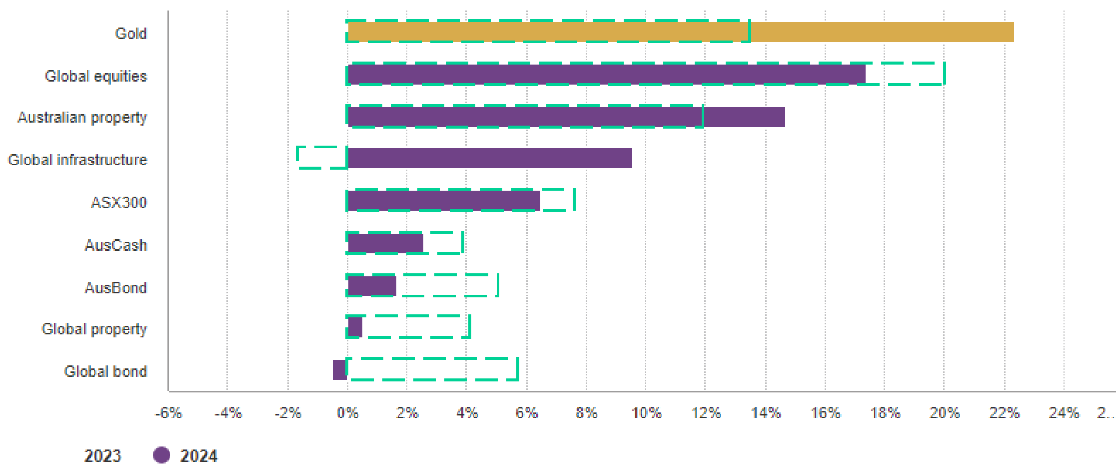
Chart 6: The correlation between Australian equities and gold, in AUD, has been consistently low over the past decade*



**Based on monthly data of ASX/S&P 300 Index, Australian 10-year Government Bond Index and LBMA Gold Price PM. All calculations in AUD. As of July 2024.*
Sources: Bloomberg, World Gold Council; Disclaimer

Contrary to the perception that "gold generates no returns", gold has, in fact, been the top performer among major global and Australian assets so far in 2024 (**Chart 7**). Strong global central bank buying, robust Asian investment demand and elevated geopolitical risks have combined to support gold's performance in H1. And it is worth noting that gold has generated positive returns every year since 2016, averaging 10% per year in AUD.

Chart 7: Gold continued to shine in 2024
Major asset performances (in AUD) in 2023 and so far in 2024*



**As of July 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.*
Sources: Bloomberg, World Gold Council; Disclaimer

Looking ahead to H2, gold is likely to draw further support as other major central banks continue their easing policies. Already, western ETF inflows have strengthened in response. And the factors that supported gold in H1 are highly likely to continue into H2, further enhancing gold's allure, as we explain in our Mid-year Gold Market Outlook.

Conclusion

As global financial markets witness increased volatility, geopolitical risks show no signs of abating and, in Australia, uncertainty remains about the future path of interest rates, Australian investors face challenges in their quest to effectively manage their portfolios. Gold offers a low correlation with local equities and attractive

return prospects while acting as an effective hedge against geopolitical risks. As such, gold is an ideal asset to enhance return and reduce risk in Australian portfolios.

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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Why Olympic bronze medallists are happier than silver medallists

Tony Dillon

Like many no doubt, I felt a tinge of emptiness when the Paris Olympic Games ended. Particularly after Australia's greatest gold medal haul ever totalling 18, and a couple of weeks laden with memorable performances, and not necessarily just Australian.

The exhilaration of securing gold and becoming an Olympic champion must be indescribable, and not even Hollywood could dream up some of the drama or results that unfolded in Paris. Which I guess is what many of us love about sport.

But gold medallists aside, I found the reactions to winning silver and bronze medals equally as intriguing, as they were often mixed. I couldn't help but notice that strikingly, many bronze medallists seemed to be happier with their prize than silver medallists. And it turns out that various studies over time have confirmed this counter-intuitive response.

The science behind medallists and happiness

Studies of facial expressions at medal ceremonies, and first reactions on crossing the line or touching the wall across multiple Olympic Games and World Championships, reveal greater overall levels of happiness for those winning a bronze medal compared to those taking out the silver. That silver to many athletes feels like they have lost, especially if they had been favoured to win gold. While bronze medallists often think they have won by making it onto the podium ahead of the rest of the field.

Like everything, there is a technical term for this phenomenon. It is known as "counterfactual thinking", which is a psychological term for imagining alternative outcomes that could arise but don't.

Many silver medallists experience "upward counterfactual thinking", where they focus on what could have been had they not fallen short, and hence a feeling of being unsatisfied with their result. Bronze medallists, on the other hand, engage in "downward counterfactual thinking", whereby they think of all those behind them who didn't win a medal, and therefore think of themselves as winners, and are more satisfied with their outcome.

Where the silver medallist feels an opportunity has been missed, the bronze medallist has seized theirs.

Now there's always an exception to every rule, or observation in this case, and there was no better example of that than the sheer emotion and excitement displayed by Australian Jessica Hull, who took out the silver medal in the women's 1500 metres track event. And no wonder, given it took the current world and Olympic champion, and world record holder in Faith Kipyegon to beat her. Jessica knew she was a winner.

Counterfactual thinking and investing

All this got me thinking about other areas of life where people compare outcomes to what might have been, where the phenomenon of counterfactual thinking can take hold. It is not just limited to sport. Take investing.

Silver medallist type thinking might occur with those investors who show dissatisfaction with the performance of their portfolio compared to better performing possibilities they had considered but didn't take. Rather than being satisfied with solid returns achieved, they show regret for not having gone down a different path and achieved better. This may lead to regret aversion and more passive investing in the future, to avoid the fear of not making optimal decisions.

The bronze medallist aligned investor however, is generally happy with modest portfolio gains, knowing that the alternative could have been losses. This downward counterfactual thinking can spur confidence and satisfaction with their investment strategies.

Identifying where one sits on the silver-bronze-medal spectrum of thinking, can assist investors in improving their approach to investing.

By focussing less on missed opportunities, investors can minimise biases and tone down the emotion in investing, which leads to more rational decision making. Equally, more realistic goal setting instead of striving for super returns, should reduce stress levels. And taking a leaf out of the bronze medallist mindset would place a priority on risk management strategies to avoid loss making situations.

Ultimately, the goal for any investor should be to adopt a healthy and balanced investment approach, to achieve a level of comfort and satisfaction that they can be happy with. And that would be a gold medal performance.

Footnote: *Looking at the final medal tally in Paris. Among the top ten nations, the Netherlands had the highest bronze to silver ratio of 171% (7 silver, 12 bronze), while Germany had the lowest at 62% (13 silver, 8 bronze). So I guess it’s party time for the Dutch, while it’s chin-up for the Germans. The ratio for Australia was 84% (19 silver and 16 bronze, to go with our 18 gold).*

Tony Dillon is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.

Disclaimer

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