Firstlinks
a Morningstar company

Edition 602, 13 March 2025

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Editorial

Investors have been surprised by the sharp pullback in markets. They shouldn't be, as I've repeatedly warned in recent months about overblown talk of US exceptionalism and irrational exuberance developing in several areas including US and Australian tech, some large caps stocks such as CBA, Bitcoin, and private credit. That's not to float my own boat but because all of this seemed obvious at the time.

And guess which parts of the markets have been hit hardest? The most exuberant, of course.

% Below 52-Week High

US Bonds: -2%
Gold: -2%
S&P 500: -9%
ASX 200: -10%
CBA: -13%
Apple: -15%
Russell 2000: -18%
Microsoft: -18%
Meta: -18%
Amazon: -19%
Google: -21%
Bitcoin: -24%
Nvidia: -29%
Palantir: -39%
MicroStrategy: -52%
Tesla: -53%
Ethereum: -53%
Dogecoin: -66%
Trump Coin: -86%
Fartcoin: -90%

As at midday 12/3/2025. Source: Creative Planning, Firstlinks

Some normally uber bullish investment banks are turning bearish. JP Morgan now thinks there's a 40% chance of a US recession. Goldman Sachs macro trader Paolo Schiavone has switched into Jeremy Grantham mode, by saying "[t]he fragility of the current setup suggests that equity returns will remain challenged," with "the biggest risk ... not a financial crisis, but something arguably worse: a slow, grinding bear market that could persist for years. Without a major credit event to force a reset, the downturn could follow the 2001-2003 playbook - marked by weak rallies, multiple false bottoms, and lower lows as economic momentum fades." And: "While short-term relief rallies are possible, structural headwinds persist, making sustained upside difficult.

Should you buy into this gloom? And, what should you do with your own portfolio?

The challenge in market downturns like these is more emotional than intellectual. A good strategy is to zoom out from the short-term noise. To 'reframe' the situation, as psychologists like to call it.

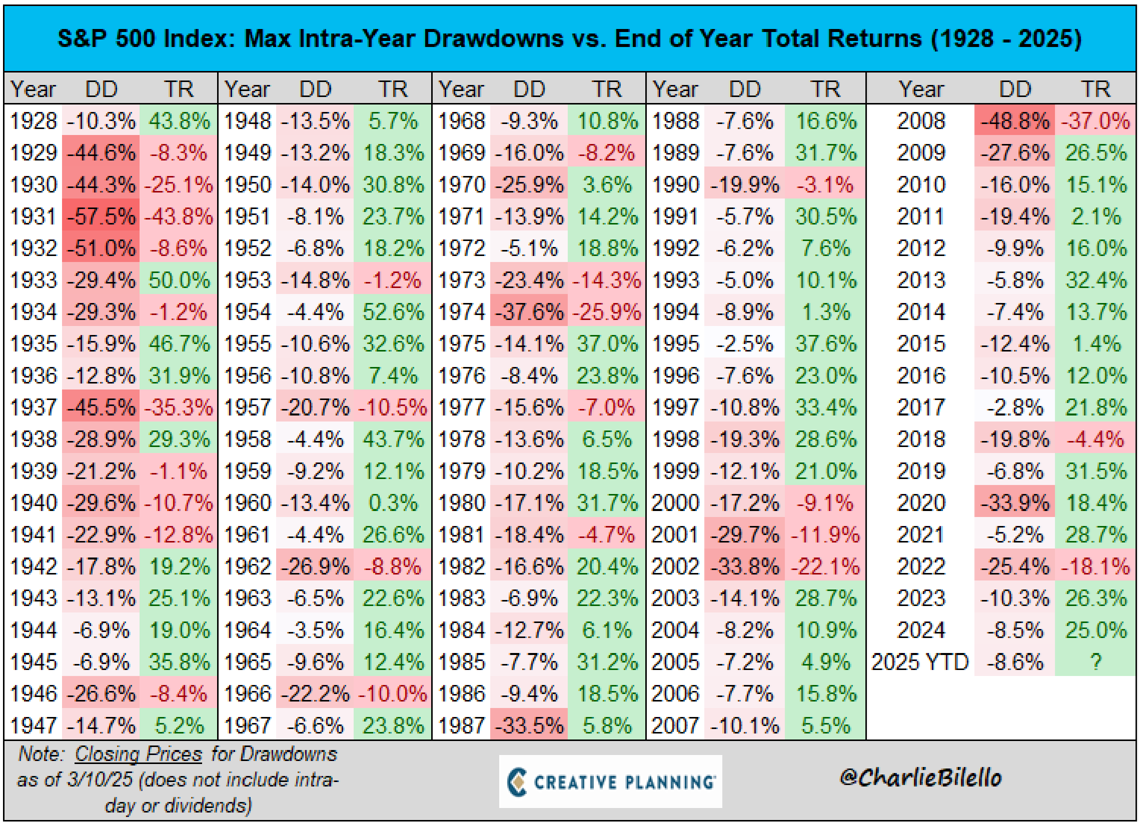
By doing this, we can see the following:

1. Market corrections like the current one are normal.

Since 2000, 15 out of the 24 years have witnessed double-digit intra-year declines (see table, next page). In other words, if the last 24 years are a guide, you can expect intra-year falls of 10% or more about 63% of the time.

2. Most of the time, market corrections reverse quickly.

The above chart also shows that if the market goes down by double digits in a year, there's still a 60% chance that it will end up in the green for the entire year.



S&P 500 Index: Max Intra-Year Drawdowns vs. End of Year Total Returns (1928 - 2025)

Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR
1928	-10.3%	43.8%	1948	-13.5%	5.7%	1968	-9.3%	10.8%	1988	-7.6%	16.6%	2008	-48.8%	-37.0%
1929	-44.6%	-8.3%	1949	-13.2%	18.3%	1969	-16.0%	-8.2%	1989	-7.6%	31.7%	2009	-27.6%	26.5%
1930	-44.3%	-25.1%	1950	-14.0%	30.8%	1970	-25.9%	3.6%	1990	-19.9%	-3.1%	2010	-16.0%	15.1%
1931	-57.5%	-43.8%	1951	-8.1%	23.7%	1971	-13.9%	14.2%	1991	-5.7%	30.5%	2011	-19.4%	2.1%
1932	-51.0%	-8.6%	1952	-6.8%	18.2%	1972	-5.1%	18.8%	1992	-6.2%	7.6%	2012	-9.9%	16.0%
1933	-29.4%	50.0%	1953	-14.8%	-1.2%	1973	-23.4%	-14.3%	1993	-5.0%	10.1%	2013	-5.8%	32.4%
1934	-29.3%	-1.2%	1954	-4.4%	52.6%	1974	-37.6%	-25.9%	1994	-8.9%	1.3%	2014	-7.4%	13.7%
1935	-15.9%	46.7%	1955	-10.6%	32.6%	1975	-14.1%	37.0%	1995	-2.5%	37.6%	2015	-12.4%	1.4%
1936	-12.8%	31.9%	1956	-10.8%	7.4%	1976	-8.4%	23.8%	1996	-7.6%	23.0%	2016	-10.5%	12.0%
1937	-45.5%	-35.3%	1957	-20.7%	-10.5%	1977	-15.6%	-7.0%	1997	-10.8%	33.4%	2017	-2.8%	21.8%
1938	-28.9%	29.3%	1958	-4.4%	43.7%	1978	-13.6%	6.5%	1998	-19.3%	28.6%	2018	-19.8%	-4.4%
1939	-21.2%	-1.1%	1959	-9.2%	12.1%	1979	-10.2%	18.5%	1999	-12.1%	21.0%	2019	-6.8%	31.5%
1940	-29.6%	-10.7%	1960	-13.4%	0.3%	1980	-17.1%	31.7%	2000	-17.2%	-9.1%	2020	-33.9%	18.4%
1941	-22.9%	-12.8%	1961	-4.4%	26.6%	1981	-18.4%	-4.7%	2001	-29.7%	-11.9%	2021	-5.2%	28.7%
1942	-17.8%	19.2%	1962	-26.9%	-8.8%	1982	-16.6%	20.4%	2002	-33.8%	-22.1%	2022	-25.4%	-18.1%
1943	-13.1%	25.1%	1963	-6.5%	22.6%	1983	-6.9%	22.3%	2003	-14.1%	28.7%	2023	-10.3%	26.3%
1944	-6.9%	19.0%	1964	-3.5%	16.4%	1984	-12.7%	6.1%	2004	-8.2%	10.9%	2024	-8.5%	25.0%
1945	-6.9%	35.8%	1965	-9.6%	12.4%	1985	-7.7%	31.2%	2005	-7.2%	4.9%	2025 YTD	-8.6%	?
1946	-26.6%	-8.4%	1966	-22.2%	-10.0%	1986	-9.4%	18.5%	2006	-7.7%	15.8%			
1947	-14.7%	5.2%	1967	-6.6%	23.8%	1987	-33.5%	5.8%	2007	-10.1%	5.5%			

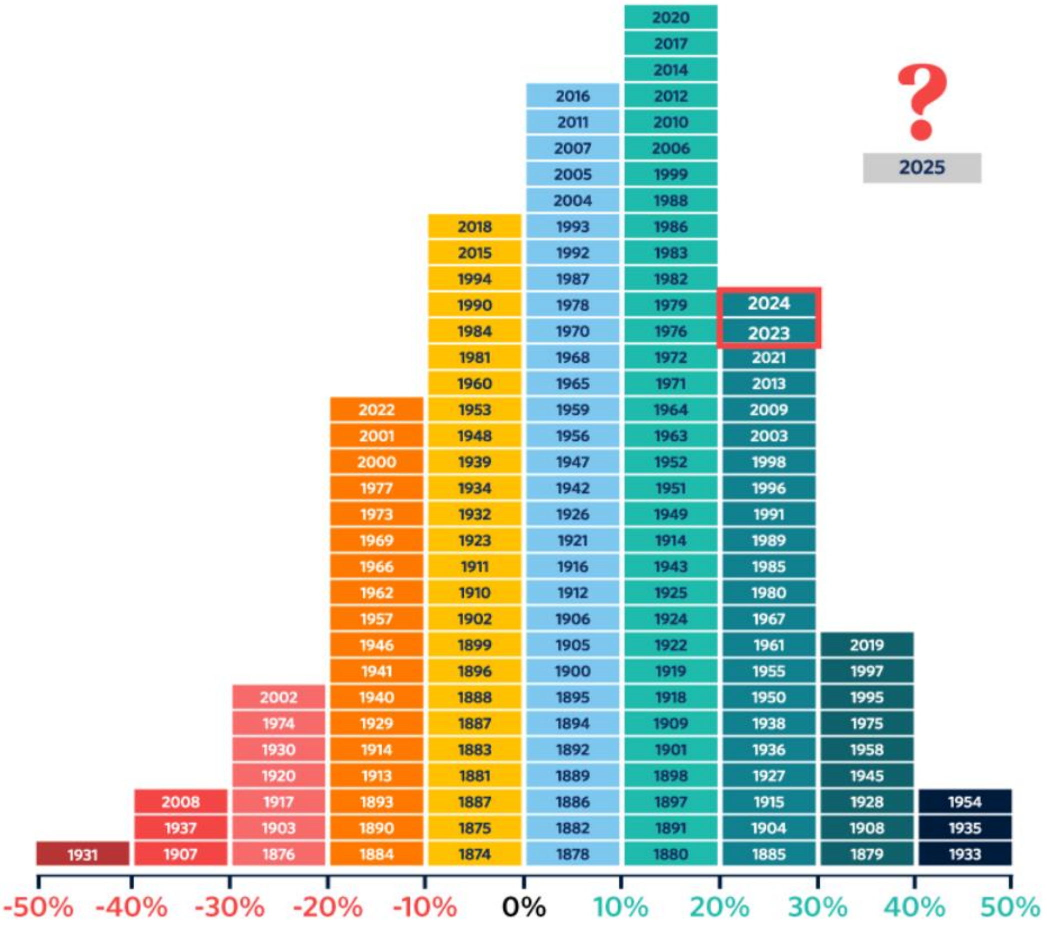
Note: Closing Prices for Drawdowns as of 3/10/25 (does not include intra-day or dividends)

CREATIVE PLANNING

@CharlieBilello

3. Just 1 in 5 years has losses of 10% or more.

Figure 2: 151 years of S&P500 returns

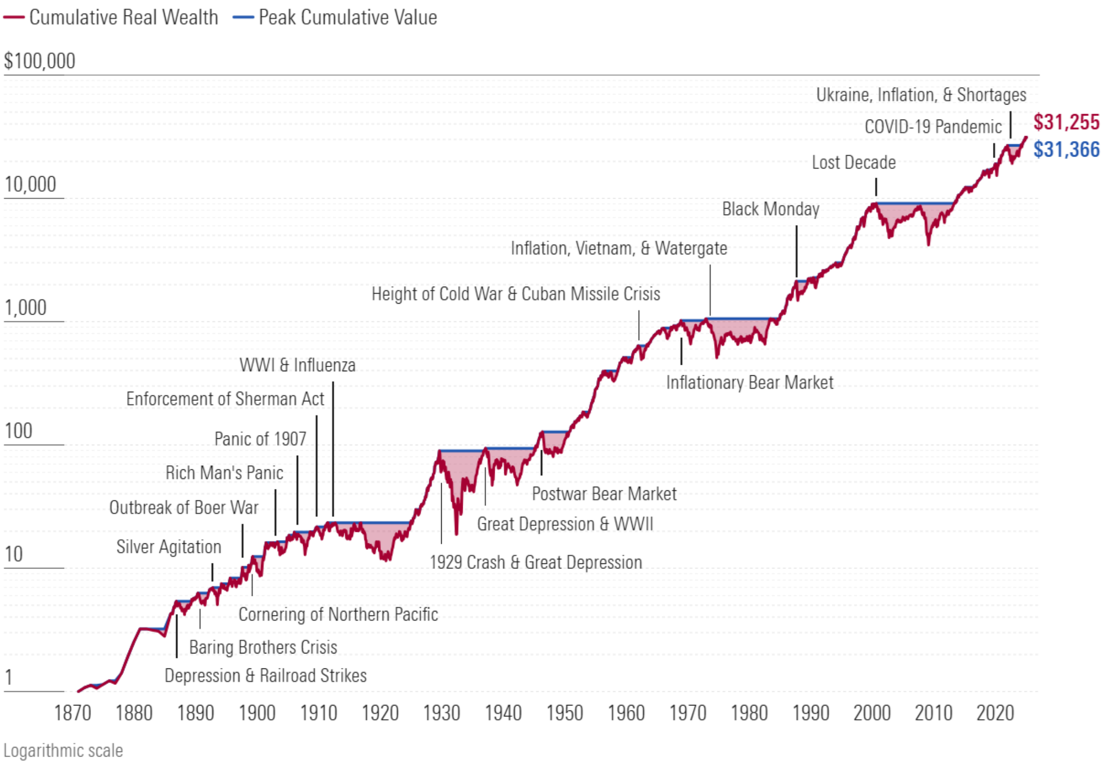


Source: Global Forecast Series, Unisuper

This is different from the first chart because it measures yearly performance rather than intra-year. As you can see, years finishing with falls of 10% are reasonably rare. Of the past 151 years of the S&P 500, there have been 29 years of double digit losses. The odds of steeper declines are lower still. Only 11 times out of 151 has there been a market tumble of 20% of more.

So, while intra-year double digit losses are common, the chances that it'll turn into a negative year are much lower.

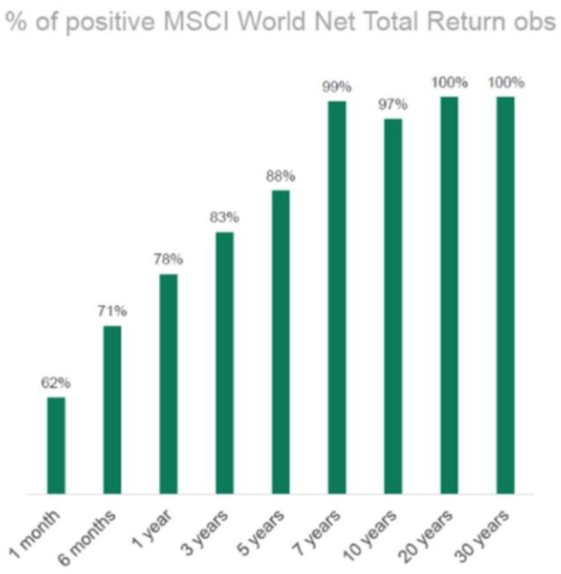
4. Zoom out far enough and market corrections look like small blips.



Source: Kaplan et al. (2009); Ibbotson (2023); Morningstar Direct; Goetzmann, Ibbotson, and Peng (2000); Pierce (1982); www.econ.yale.edu/^shiller/data.htm, Ibbotson Associated SBBI US Large-Cap Stock Inflation Adjusted Total Return Extended Index, S&P 500 (2025), Bureau of Labor Statistics, Non-Seasonally Adjusted Consumer Price Index (2025). Data as of Jan. 31, 2025.

This chart shows one dollar (in 1870 US dollars) invested in a hypothetical US stock market index in 1871 would have grown to $31,255 by the end of January 2025 in real terms (inflation-adjusted).

5. Holding periods matter. The chart (right) shows the chances of making a positive return on the MSCI World Index when investing for 7 year or more is at or near 100%. In other words, long-term investing almost always pays off.



Source: Firetrail

The three golden rules of investing

Reframing markets in this way can hopefully lead you to bypass your emotions to consider the current markets in a more rational one.

And it leads me to my three golden rules of investing, which are especially applicable in any market downturn:

1. **Stay invested.**
2. **Buy more if you can.**
3. **Be patient.**

Staying invested means that you don't try to time markets. Doing this invariably leads to poor choices and inferior returns. Don't believe me? Well, research has repeatedly shown that retail investors earn far lower returns than indices. The reason? They try to time markets. Don't make the same mistake.

Buying more if you can means taking advantage of corrections to add to your portfolio. Rebalancing a portfolio is one way to do this. Another way is opportunistically adding to stocks that you already own or ones that you've earmarked to buy at certain prices.

Finally, being patient suggests holding onto stocks for as long as you can to let compounding can its course.

Following these three rules can enable you to build a sizeable portfolio and face any market corrections like this one with equanimity rather than fear.

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In my article this week, I take a closer look at the $5.4 trillion intergenerational wealth transfer in Australia and suggest that while it may be good for those with the money and those inheriting it, it isn't so good for the country as a whole. I explain why that's the case, and offer some potential solutions.

James Gruber

Also in this week's edition...

As you might be able to tell from the endless spending promises from both sides of politics of late, a Federal election is set to be called at any moment. **Shane Oliver** outlines what the election will mean for investors.

Investment returns in super are a big focus – the media never fail to report on them. But **UniSuper's Annika Bradley** says that the chance of a comfortable retirement isn't just about investment returns, it's also about managing the risks along the way.

Meanwhile, most superannuation products offered to working-age Australians are now performance-tested, and there are calls to extend these tests to account-based pensions. **Ron Bird** isn't keen on the idea, for a host of reasons.

Tariffs are dominating the headlines and giving fright to fragile markets. But what does history tell us about the impact of tariffs on shareholder returns? **VanEck's Anna Wu** has the answers.

Amid a mini-market crash and a torrent of headlines, where are the best opportunities for investors? **Fidelity International's Maroun Younes** scours the globe and offers what he thinks are the next market winners.

Leigh Gant says there's a peculiar irony in investing: the more aggressively you try to compress your timeline and chase that one massive windfall, the more likely you are to stumble. A better strategy is focus on minimising losses, rather than maximising gains, he believes.

Lastly in this week's whitepaper, **VanEck** does a deep-dive on quality investing and compares its performance and risk to other identifiable investing 'factors'.

Why the $5.4 trillion wealth transfer is a generational tragedy

James Gruber

There's been a lot written about how Australia is in the early throes of the biggest intergenerational wealth transfer in its history. Most of it has focused on the mechanics of the transfer, who'll get the money, and when. Also, how financial advisers are licking their lips given the prospect of an increasing need for their services.

But there's been less debate about whether the wealth transfer is a good thing for the country. I'm going to argue that it's not.

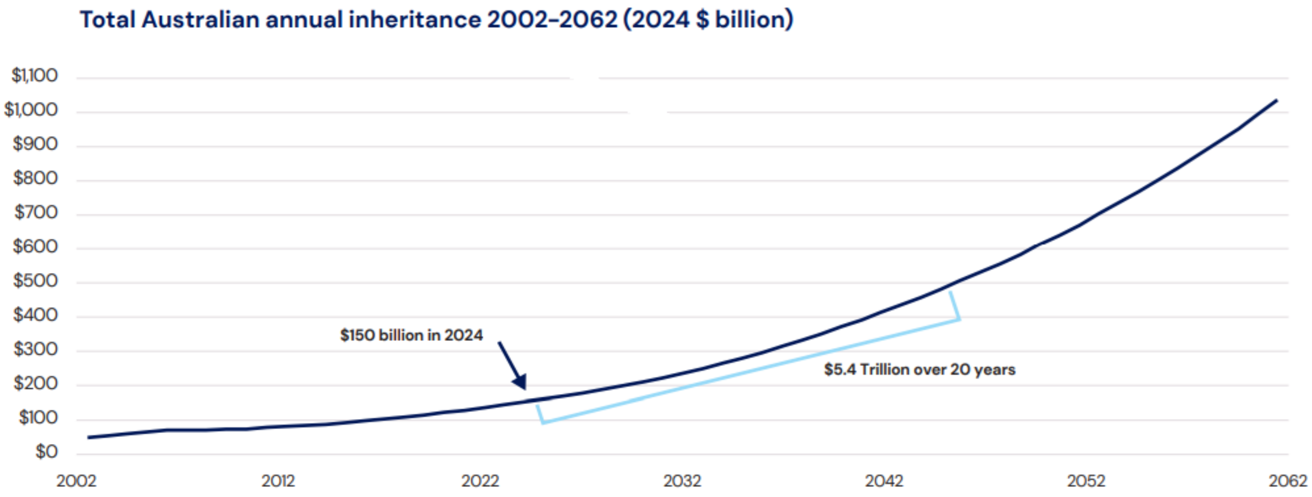
It's not bad because of the inheritances involved. And it's certainly not bad because of the wealth involved. If you've managed to build a sizeable estate to pass on, that's good for you.

What's more problematic is the explosive asset growth, especially in housing, that's accompanied the bequest boom. It's the result of decades of poor Government policy and it's creating a host of economic and social problems – some obvious, others less so.

What's the intergenerational wealth transfer?

The issue gained prominence with the release of a 2021 Productivity Commission report which laid bare the extent of the coming wealth transfer. The report estimated that around $3.5 trillion in assets will be transferred in Australia by 2050. It said inherited assets would rise from the current $120 billion per annum to $500 billion per annum over the next 25 years. And that most of the assets would come in the form of superannuation and residential property.

Stockbroker JB Were has recently updated the Productivity Commission figures and suggests that the wealth transfer will now total about $5.4 trillion.



Total Australian annual inheritance 2002-2062 (2024 $ billion)

Source: JBWere estimates

Stock trading firm, AUSIEX, has found that the wealth transfer is likely to happen sooner than expected. It suggests Baby Boomers are leaving the workforce at an accelerated pace, and they'll be all but gone from workplaces by 2028:

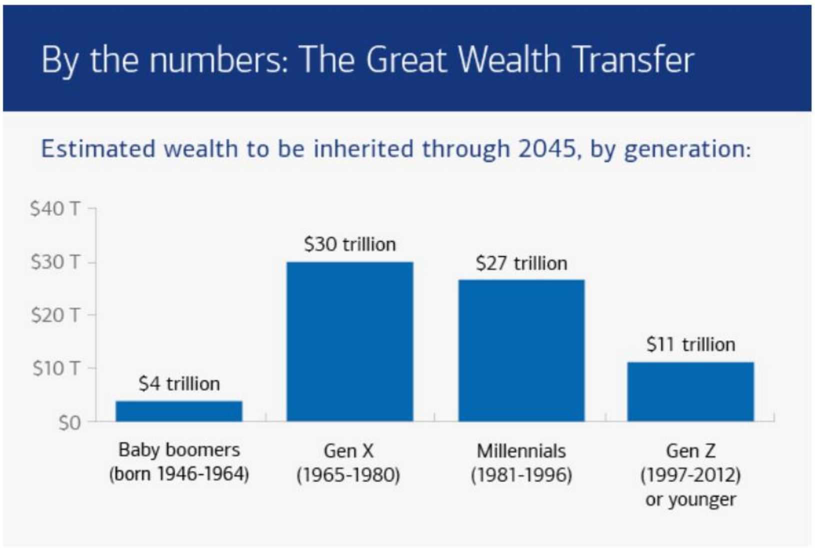
> *"It doesn't stop there. In 2027, the first of the baby boomers will reach their statistical age of death (81 years for men and 85 years for women).*
> *Baby boomer superannuation balances will start to deflate out of the system through retirement consumption and then through disbursement via the inheritance process."*

Not just an Australian issue

The inheritance boom isn't just an Australian phenomenon. In the US, consultant, Cerulli Associates, estimates that US$84 trillion is going to be passed down from older Americans to millennial and Gen X heirs through 2045, with US$16 trillion of that set to be transferred within the next decade.

French inheritances have doubled since the 1960s while in Germany, they've trebled. In Italy, inheritances now total around 15% of GDP.

The Kings Court Trust and Centre for Economics and Business Research forecasts that about £5.5 trillion will be passed down in the UK over the next 30 years.



By the numbers: The Great Wealth Transfer

Estimated wealth to be inherited through 2045, by generation:

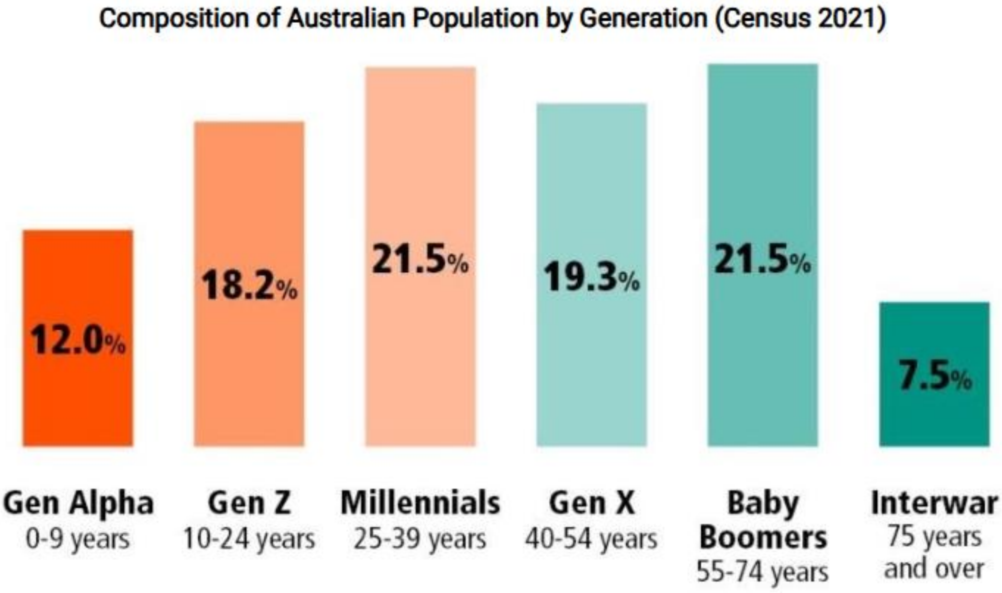
Source: Cerulli Associates, "The Cerulli Report: U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2021."

Three key drivers

There are three factors behind the increasing inheritances:

1.Greater wealth. Since 1980, there's been a massive asset boom. Shares have catapulted. Housing has exploded. Gold, Bitcoin, and art have also done well. Combined with low inflation, until recently, that's been a boon for wealth both in Australia and globally.

2.Demographics. A large cluster of Baby Boomers entered their prime during the early years of the asset bull market. Now the Boomers are mostly retired and passing on their wealth via gifts and inheritances.



Source: ABS

3.Low death taxes. Australia doesn't have inheritance or estate taxes, while in the US and UK, so-called death duties when measured against Government tax revenues are near 100-year lows.

Consequences of the wealth transfer

The wealth transfer issue is especially acute in Australia given the extent of the asset boom that's driven it. Specifically, the housing boom. Housing makes up about 56% of Australia's total wealth, according to CoreLogic. And Baby Boomers have the highest levels of home ownership.

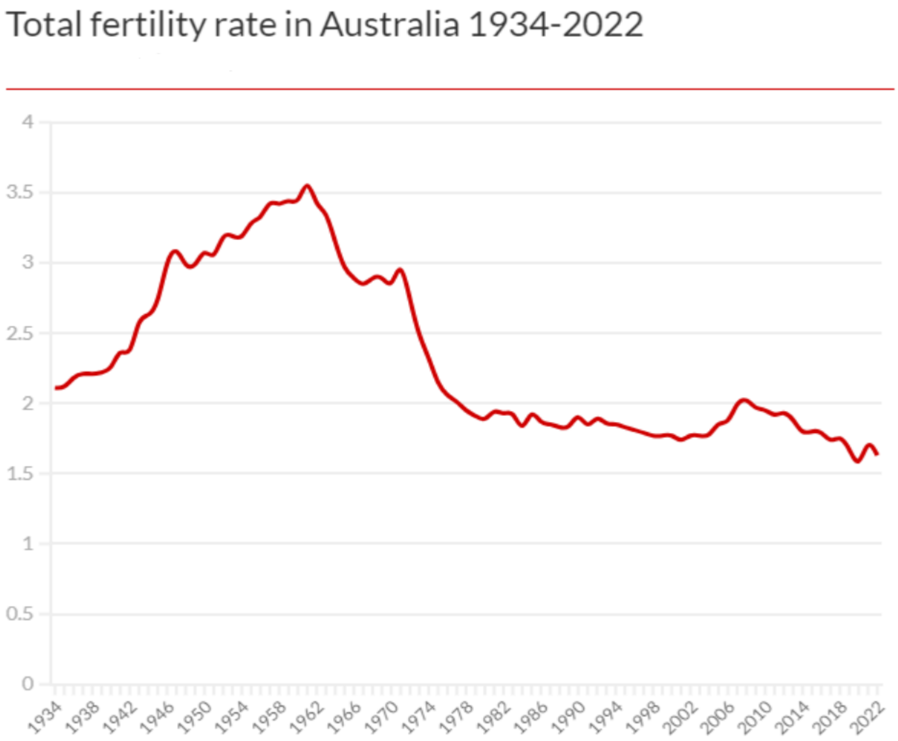
The 2021 census revealed that Boomers were 3 times more likely to own their home outright than Millennials were at the same age.

Put simply, the greatest wealth transfer in Australian history is largely the result of an extraordinary housing bubble that's now into its fifth decade. That bubble, and the associated inheritance windfall, is leading to all sort of economic and social problems, including:

Low economic productivity. Productivity has barely budged in Australia over the past decade. That's unsurprising given housing and super are many multiples greater in size than the economy. The money being tied up in these asset classes means there is less investment going to potentially more innovative and productive areas of the economy.

Greater inequality. Data from a recent HILDA survey shows that inequality has reached 20-year highs. Again, this isn't a shock given rises in housing and super have far outstripped incomes and inflation. It's also interesting how higher interest rates since 2022 have hurt the young more than the old, because the former hold a greater proportion of housing loans.

Lower fertility rate. Who can afford kids when affording a home is hard enough?


Total fertility rate in Australia 1934-2022

Source: ABS

Less mobility? The Productivity Commission has noted that wealthier parents tend to have wealthier children, even in the absence of wealth transfers. Inheritances strengthen this relationship — which means inheritances impede social mobility — because they move children closer to their respective parent's position in the wealth distribution. This theory makes sense though it isn't yet supported by any hard data in Australia.

Marrying in kind? Several overseas studies show that inheritances are becoming more important in explaining people's choice of spouse. There is no comparable research in Australia to validate this.

The young taking on more risk? One thing that fascinates me is how younger people are taking on greater risk by putting money into speculative assets like meme stocks and Bitcoin. I suggest that this is partly tied to the asset boom. The young see the wealthy haven't gotten rich by building a career and income. They've principally done it by owning assets which have appreciated in value.

Swings against major political parties. There is frustration by the growing gap in wealth between generations, and that's spilling over into politics. In Australia, there's been a swing against the major parties in favour of independents. In the US, they've voted in Trump. In Germany, the far-right Alternative for Germany (AfD) party has become a major political force after recent elections. And that follows swings to far-right and far-left parties across many other European countries, including France.

The solution

The solution to the generational wealth gap and transfers would seem to be easy: increase taxes on superannuation or other forms of wealth and reintroduce a 'death tax' (we previously had one for a long time).

But raising taxes would just be a band-aid and an admission of failure; a failure to deal with the real issue causing most of the problems, namely housing.

To solve housing doesn't require a genius. Significantly increase supply and remove all subsidies pumping up demand.

Until these things happen, we're going to have continuing debates about the generational wealth gap and rise in inheritances.

James Gruber is Editor at Firstlinks.

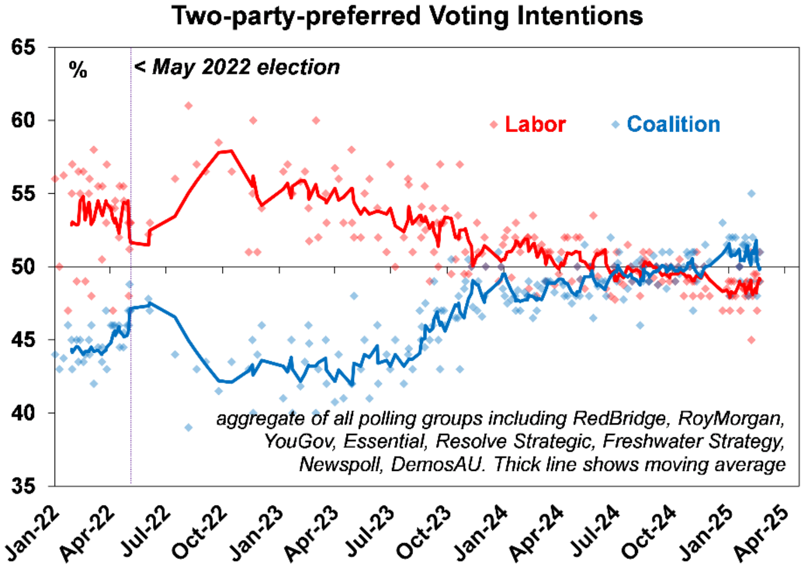
The 2025 Australian Federal election – implications for investors

Shane Oliver

While anticipation of devastation from Cyclone Alfred saw the PM ditch plans to call an election for 12th April, we are effectively in an election campaign with the Government announcing numerous spending promises since January and the Coalition often matching them. And with the election due by 17 May, this will ramp up with the now to be held budget in two weeks. Budgets are often tedious affairs loaded with politics but are more so when they are just ahead of elections. Policy uncertainty going into the election is low, but this belies the challenges facing Australia.

Polls point to a close outcome

Labor has been trailing in two party preferred polling averages although the gap may be narrowing. Current polling suggests both parties may struggle to get a 76-seat majority raising the prospect of a hung parliament and minority government. The ALP has 78 seats and could easily lose three, whereas the LNP gaining the 22 seats needed to win is a big ask.

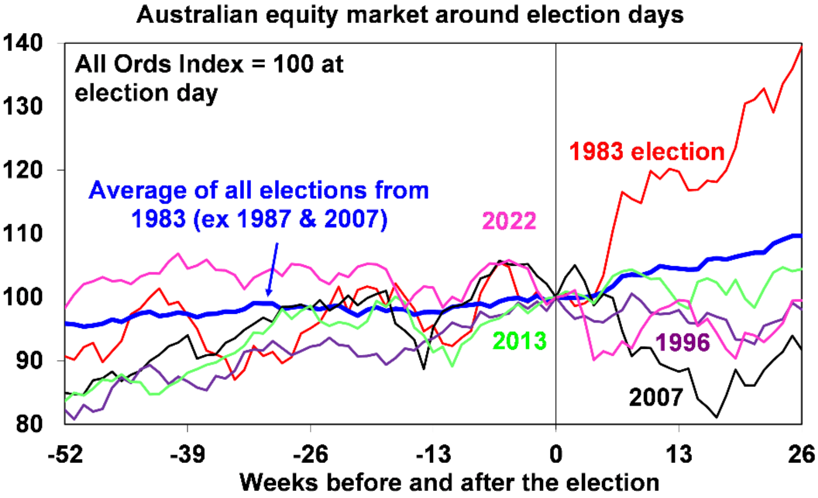


Source: Polls as indicated, AMP

Elections, the economy and markets in the short term

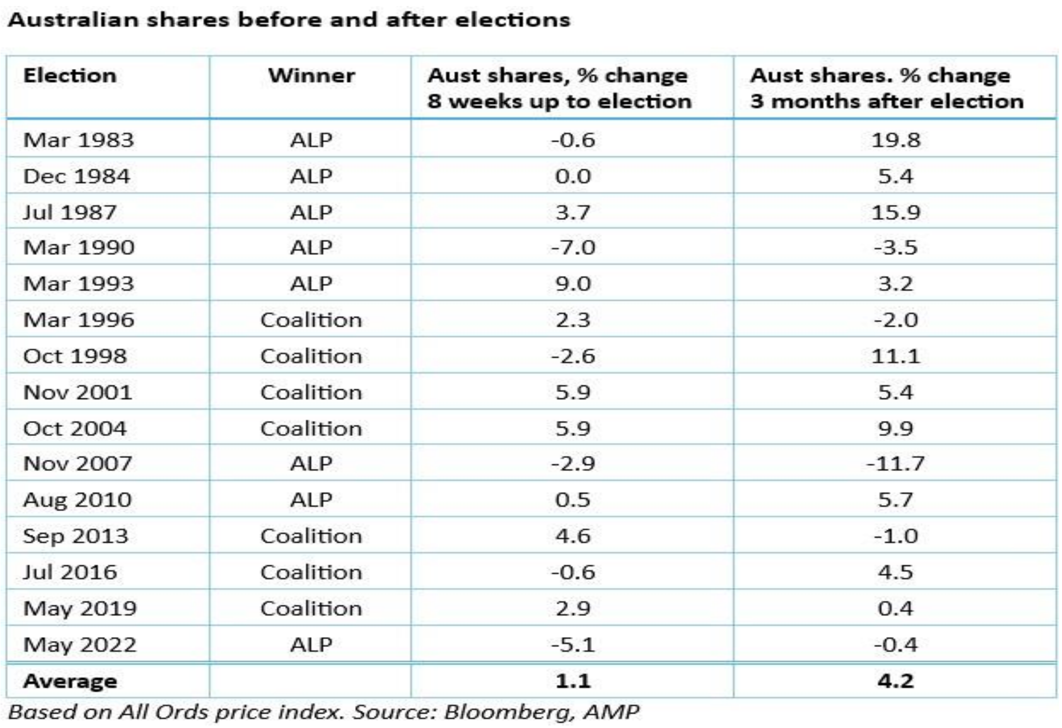
There is anecdotal evidence that election campaigns cause households and businesses to put some spending on hold. However, hard evidence is mixed with election years since 1980 seeing average economic growth of 3.3% pa, greater than the 3.1% pa average over the whole period.

In terms of the share market, there is some evidence of it tracking sideways ahead of elections, possibly reflecting uncertainty and then a relief rally once it's over. The next chart shows Australian shares around elections since 1983. This is shown as an average for all elections (but excluding the 1987 and 2007 elections given the 1987 share crash and the GFC), and the periods around the 1983, 2007 and 2022 elections, which saw a change to Labor, and 1996 and 2013, which saw a change to the Coalition.



Elections which saw a change of government are highlighted.
Source: Reuters, Bloomberg, AMP

However, elections resulting in a change of government have seen a mixed picture. Shares rose sharply after the 1983 Labor win but fell after their 2007 and 2022 wins. After the 1996 and 2013 Coalition wins shares were flat to down. So based on history it's not obvious that a victory by any one party is best for shares & historically moves in global shares played a bigger role than the election. The next table shows that 10 out of the 15 elections since 1983 saw shares up 3 months later with an average 4.2% gain.



Australian shares before and after elections

Election	Winner	Aust shares, % change 8 weeks up to election	Aust shares. % change 3 months after election
Mar 1983	ALP	-0.6	19.8
Dec 1984	ALP	0.0	5.4
Jul 1987	ALP	3.7	15.9
Mar 1990	ALP	-7.0	-3.5
Mar 1993	ALP	9.0	3.2
Mar 1996	Coalition	2.3	-2.0
Oct 1998	Coalition	-2.6	11.1
Nov 2001	Coalition	5.9	5.4
Oct 2004	Coalition	5.9	9.9
Nov 2007	ALP	-2.9	-11.7
Aug 2010	ALP	0.5	5.7
Sep 2013	Coalition	4.6	-1.0
Jul 2016	Coalition	-0.6	4.5
May 2019	Coalition	2.9	0.4
May 2022	ALP	-5.1	-0.4
Average		**1.1**	**4.2**

Based on All Ords price index. Source: Bloomberg, AMP

On average, over elections since 1983 the Australian dollar has drifted sideways to down before and after elections, but it's very messy.

Shares and property under Coalition and ALP governments

Over the post-WW2 period shares have returned (capital growth plus dividends) 12.9% pa under Coalition governments and 9.7% pa under Labor. Labor governments led by Whitlam and Rudd/Gillard had the misfortune of severe global bear markets. And the reformist Hawke/Keating government defied perceptions that conservative governments are better for shares with shares returning 17.2% pa.

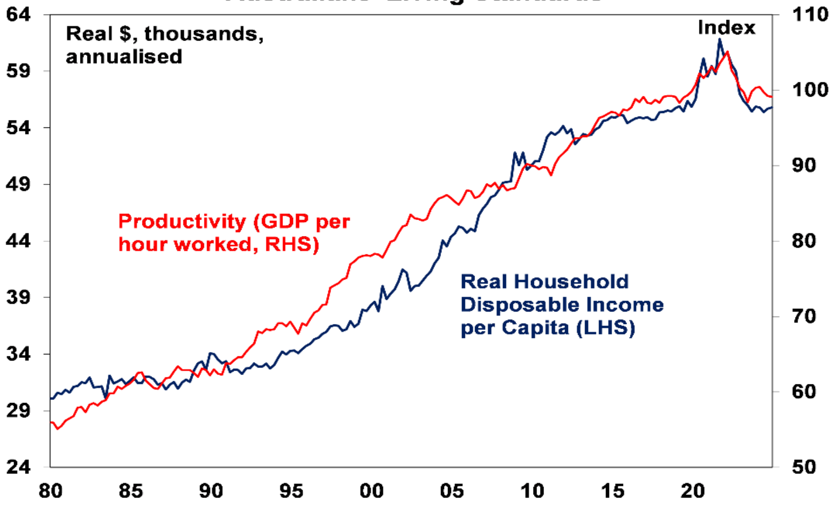
Looking at the Australian residential property market, using CoreLogic data since 1980, capital city property prices have risen 7.7% pa under Coalition governments and 4.3% pa under Labor. That said, policies with respect to housing have not been particularly different under both sides of politics.

Once in government, political parties are usually forced to adopt at least half sensible policies if they wish to ensure rising living standards and arguably there has been broad consensus in recent decades regarding key macro-economic fundamentals – eg, low inflation and mostly free markets.

Challenges for the next government

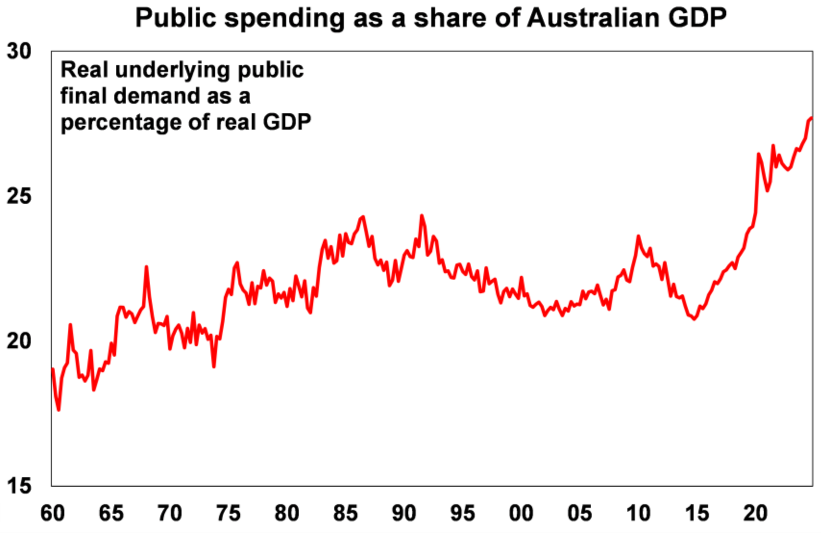
Boost productivity to boost living standards – the 'cost of living' is voters' key concern. It's reflected in a 10% fall in real household disposable income per person - which reflects wages (+11% over the last 3 years) not keeping up with prices (+15%) and a surge in tax and interest payments – and a broader stagnation in real incomes over the last decade. The key is to boost poor productivity, which is the main driver of decent real wage growth. This requires tax reform, deregulation, competition reform, improving education, etc.

Australians' Living Standards



Source: ABS, AMP

A good place to start would be to cap public spending as a share of GDP as it's been exploding and crowding out somewhat more productive private sector activity.



Source: ABS, AMP

Improve housing affordability – this is voters' number two concern. It's been deteriorating for decades, impacting productivity and equity.

Get the budget under control – the Labor Government has been lucky with a nearly $200 billion revenue windfall on the back of a strong jobs market, high commodity prices and bracket creep enabling modest surpluses. But much of this has been spent contributing to the surge in public spending leading to higher than otherwise inflation and interest rates. Structural spending pressures around the NDIS, health, aged care, defence and public debt interest are now taking the budget back into deficit when public debt is already high. They need to be checked and/or offset by savings elsewhere. So tough decisions will be needed as we can't just keep relying on an ever-higher tax burden on Millennials and Gen Z to pay for things.

Survive Trump – his erratic policy making risks: US and global recession; direct tariffs on our exports; less demand for our exports; increased geopolitical threats; pressure for Australia to deregulate and cut taxes; and big pressure to ramp up defence spending from 2% to 3% of GDP. This means making the economy as strong as it can be - so driving a bigger pie should be the key focus.

Economic policy differences

The ALP is offering a continuation of bigger government, a higher tax share to eventually balance the budget, industry policy like "Future Made in Australia" and more regulation. Since the start of the year the Government has promised an extra $35 billion in spending over the next four years (on Medicare, urgent care clinics, roads, the NBN, public schools, the Whyalla steelworks nationalisation, etc). More is likely in the Budget with another round of $300 per household electricity bill relief costing $3.5 billion (without which average electricity bills could rise 25%). And this is before allowing for extra disaster spending flowing from the damage cause by ex-Cyclone Alfred (note the 2022 East Coast floods cost the budget around $7 billion).

The Coalition has committed to matching much of this. But it also promises smaller government, an up to 36,000 cutback in public workers saving $6 billion, lower taxes and less regulation. But - beyond committing to nuclear energy over wind, solar and batteries - its policy details are so far lacking.

Both sides of politics also seem committed to big use of off-budget funding e.g. with Labor's promise to wipe 20% off student debt and the Coalition looking to use it for its nuclear power stations. But this is just a sleight of hand as while it doesn't show up in the budget deficit it adds to public debt. Hardly consistent with "Budget Honesty". The Coalition's nuclear policy is also a huge return to public ownership of the power industry which is contrary to its small government philosophy.

While the Coalition is getting closer neither side is really committing to a reform agenda to put the economy on a stronger path (which is maybe too much to expect in an election) but both sides should at least be leveling with the public in terms of the need for spending restraint and reforms. Much like Hawke/Keating did a generation ago.

On housing, both sides are now rightly more focussed on boosting supply. The Labor Government is focussed on trying to build 1.2 million new homes under the Housing Accord. The Coalition promises to invest $5 billion in housing infrastructure and cut permanent migration by 25% but its policy to allow first home buyers to access $50,000 of their super will just boost home prices – great for Baby Boomers and Gen X but not much else.

Concluding comment

The relatively modest difference in economic policies between the Coalition and Labor suggests minimal impact on investment markets if there is a change of government. Trump bumps will likely continue to dominate. The main risk for investment markets may come if neither side win enough seats to govern, forcing a reliance on minor parties or independents, further delaying productivity reforms and in the case of a minority Labor government forcing it down a less business friendly path.

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.

Three underrated investment risks in retirement

Annika Bradley

Investment returns in super are a big focus – the media never fail to report on them. But the chance of a comfortable retirement is not just about investment returns. Outliving your savings, inflation, and not sticking to the plan are three risks that can make a big difference to your golden years and should be tracked closely.

Risk 1: the risk of outliving your savings

What is the risk of outliving your savings?

Either living longer than anticipated (it happens) or simply not having enough money to live comfortably to an 'average' life expectancy. According to the 2023 Intergenerational Report, living longer is a reality. Currently life expectancies at birth are around 81 years for men and 85 years for women. This is expected to rise to about 87 years for men and 90 years for women by 2063.

How to manage the risk of outliving your savings?

1. **Know your timeframe:** when are you going to die? A macabre question. No-one knows, but over half of us haven't even thought about it[1]. Estimating life expectancy is key to managing this risk. A 40-year-old female is expected to live to about 85 years old[2] – round up to at least 90 to be on the safe side. That's an "investment time horizon" of over 50 years!
2. **Know your spending levels:** How much do you need and want to spend in retirement? Forecasting this is not a precise science, but there are rules of thumb to help you estimate your desired "retirement income".
3. **Know your starting point**: What's your superannuation account balance? How much do you earn? Have you got any savings or debt? When do expect to retire? What's your current 'investment mix'?

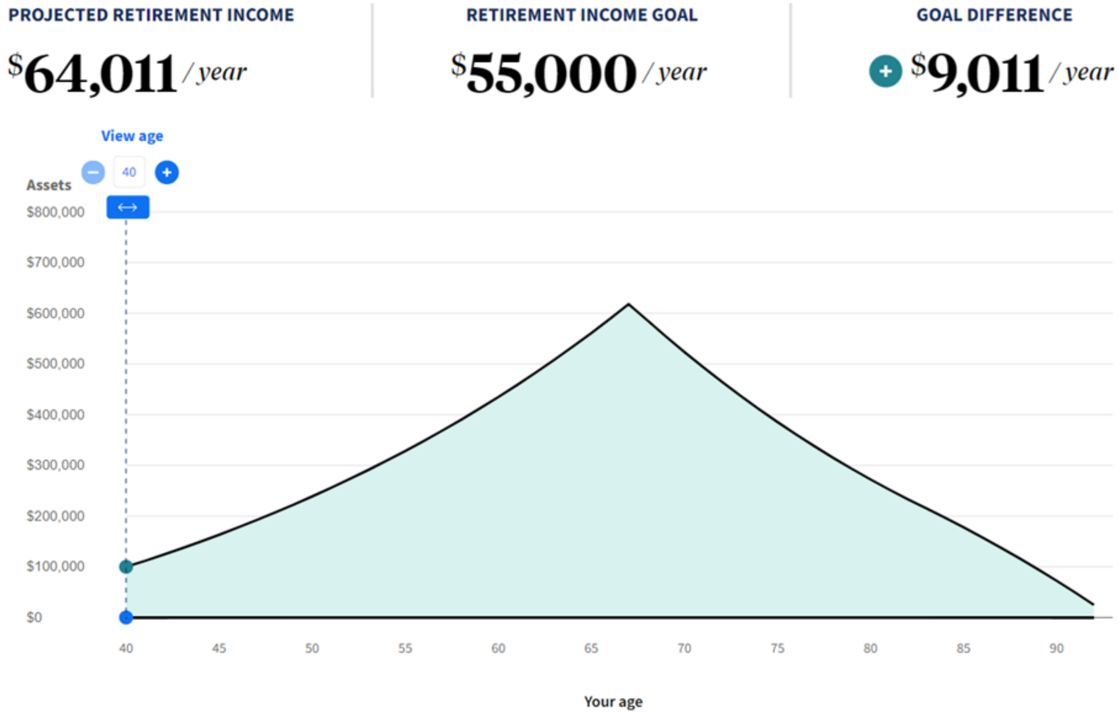
Now use an online tool to project your super account balance in retirement and how long your desired 'retirement income' will last. These tools can be found on super fund or government websites. It feels complex, but rough estimates are fine and the tools often pre-fill some information to assist you.

Exhibit 1: Will I outlive my savings?

Inputs	
Age	40 years old
Expected retirement age	67 years old
Marital status	Single
Gender	Female
Annual salary (before tax)	$85,000
Current super balance	$100,000
Investment strategy	High Growth
Assets outside of super	None
Home ownership status	Expect to own home by retirement
Desired retirement income (after tax)*	$55,000 per year

**This represents over 80% of the current annual salary. Note: annual salary is before tax; desired retirement income is after tax.*

Sample result: Asset levels – Assets grow to over $600,000 and last past 90 years old



PROJECTED RETIREMENT INCOME $64,011 / year

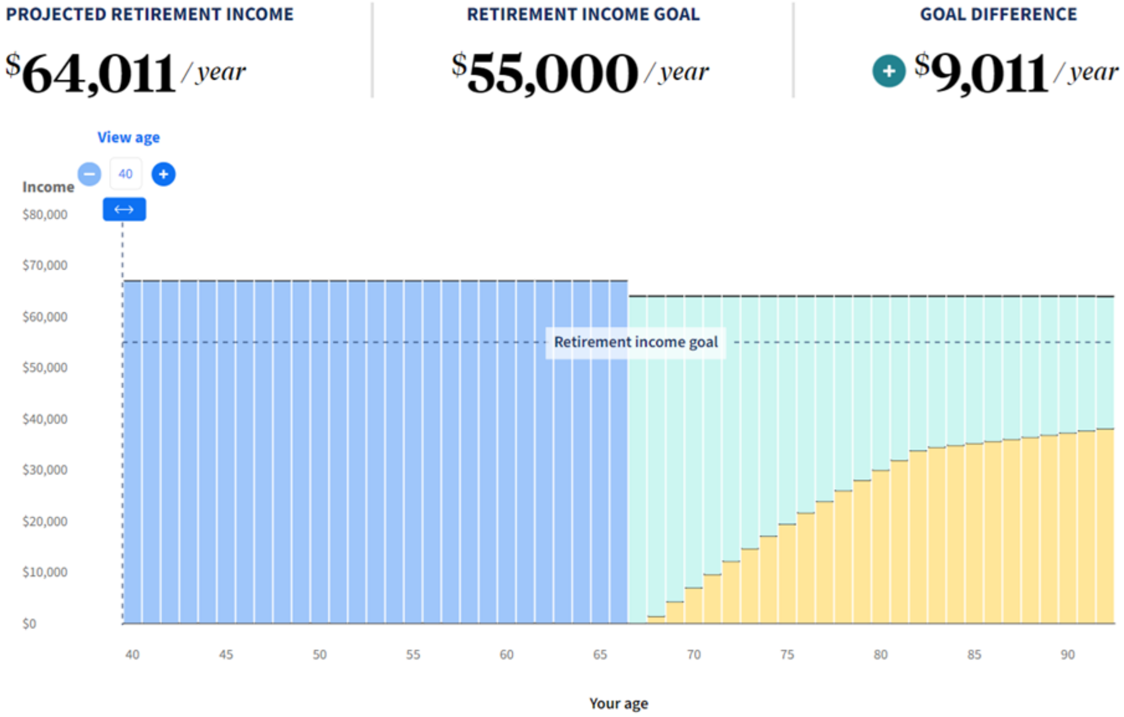
RETIREMENT INCOME GOAL $55,000 / year

GOAL DIFFERENCE + $9,011 / year

View age
40
Assets
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
40
45
50
55
60
65
70
75
80
85
90
Your age

Source: UniSuper Retirement Savings Calculator

Results: Income levels – Retirement income goal is exceeded



PROJECTED RETIREMENT INCOME $64,011 / year

RETIREMENT INCOME GOAL $55,000 / year

GOAL DIFFERENCE + $9,011 / year

View age
40
Income
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
Retirement income goal
40
45
50
55
60
65
70
75
80
85
90
Your age

Source: UniSuper Retirement Savings Calculator

Risk 2: the risk of inflation

What is inflation risk?

Inflation reduces the value of your savings over time. That is, the $100 you save today won't buy as much in the future. Post COVID-19, inflation (or CPI) has increased. If a loaf of bread cost $3.50 in 2019, it now costs $4.50. So, the $100 you saved bought you 29 loaves of bread in 2019, but it only buys 22 loaves today. This diminished buying power is inflation risk.

How to manage the risk of inflation?

- **Invest to outpace inflation**: you'll notice many superannuation funds set objectives at CPI (inflation) plus 2%, 3% or 4% per annum. This is because inflation is a real risk over long periods, and it is important to outpace it if you want to maintain your buying power over time.

- **Cash is not king long-term:** while investing in cash might feel 'safe', over the long-term it likely means buying less bread. Cash might be fine to fund shorter term goals, but time horizons in super are measured in decades, not years.

Risk 3: the risk of not sticking to the plan

What is the risk of not sticking to the plan?

Changing your investment mix based on market moves. That is, selling your investments when markets are falling or chasing higher investment returns when markets are rising. This switching activity can reduce your account balance in retirement.

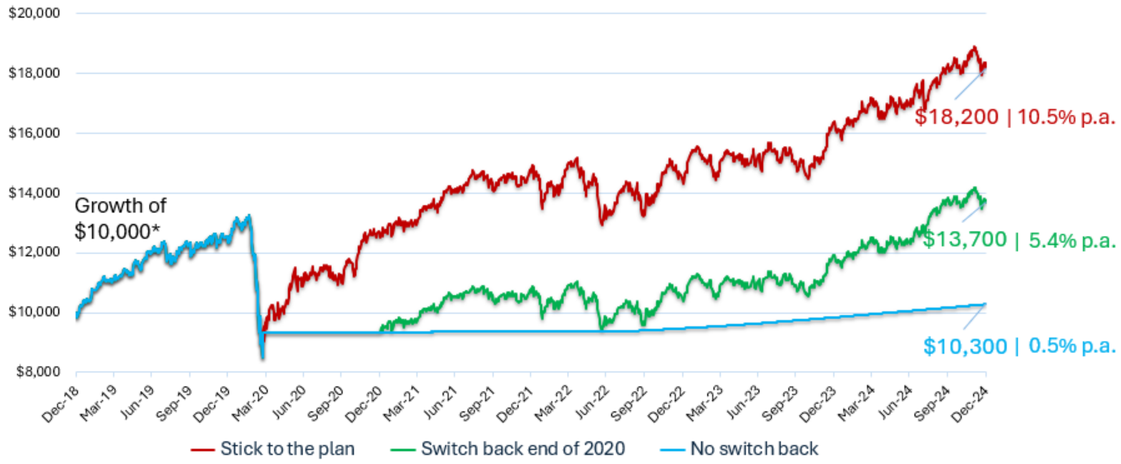
Cast your mind back to early 2020 – it was a very uncertain time and markets were falling sharply. Let's look at Exhibit 2: there are three scenarios laid out for an investor who put $10,000 in Australian shares at the end of 2018:

- Stick to the plan: the investor who rides out the COVID market volatility. *Investment return generated = 10.5% p.a.*

- Switch back: the investor who switches out of shares and into cash in March 2020 at peak uncertainty. At the end of 2020, once vaccines are approved, the investor switches back into shares. *Cost of switching? $4,500 worse-off (relative to 'Stick to the plan'). Investment return generated = 5.4% p.a.*

- No switch back: the investor who switches into cash in March 2020, but can't decide when to switch back to shares. *Cost of switching? $7,900 worse-off (relative to 'Stick to the plan'). Investment return generated = 0.5% p.a.*

Exhibit 2: Cost of switching during COVID-19: Australian Shares and Australian Cash



Source: Bloomberg, UniSuper. Australian Shares is the S&P/ASX 200 Total Return Index[3] and Australian Cash is Bloomberg AusBond Bank Bill Index[4]. Daily return series applied. *Assumes income is reinvested and no fees, costs, taxes are incurred. Dollar figures are rounded to the nearest 100 for simplicity. Past performance is not an indicator of future performance.

How to manage the risk of not sticking to the plan?

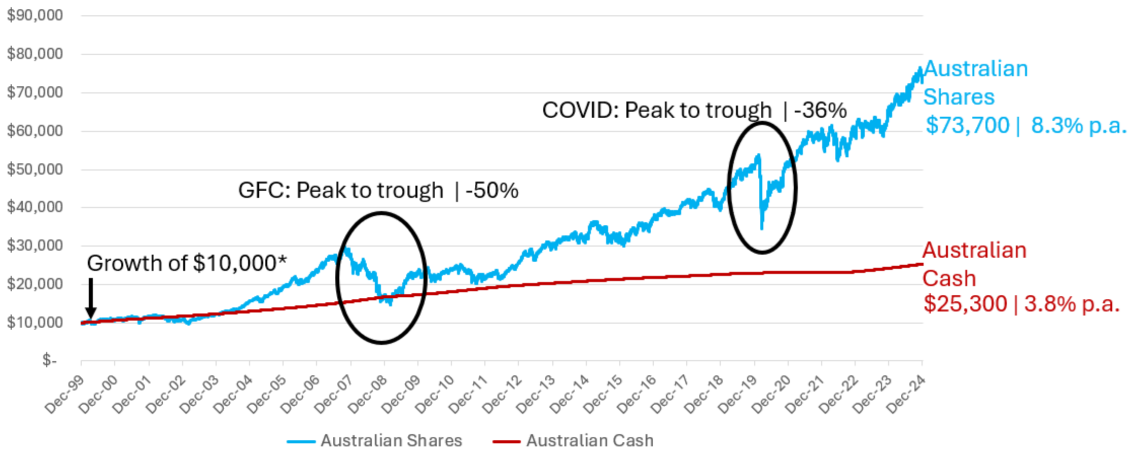
- **Know your why:** if you're clear on your retirement goals, it can be easier to stick to the plan. In retirement, your super may be your main source of income, so feeling 'comfortable' investing in cash is tempting. But investing in cash likely reduces the chance of achieving your retirement goals and outpacing inflation over time.

- **Know your risk tolerance:** what's your willingness to take risk and how do you behave? Everyone reacts to risk differently – it's influenced by gender, past experiences and financial literacy[5]. Sometimes an investment mix is set purely based on risk tolerance - risk averse investors may prefer investments that fall less in a downturn. But this comes with the likelihood of lower returns. Prioritise selecting an investment mix that best supports your retirement goals and manage your emotions in a downturn.

- **Know the costs:** Exhibit 2 shows there are two decisions to make when switching – the point to sell and the point to buy. Timing these decisions consistently well is nearly impossible. The "no switch back" investor cost themselves almost $8,000. It can be expensive to react emotionally to market up and downs.

- **Know what to expect:** past performance is no guarantee of future performance, but it provides perspective. Exhibit 3 shows the peak to trough drawdown during the Global Financial Crisis was -50%! Yet, over average, the share market has delivered over 8% each year - well ahead of cash.

Exhibit 3: Australian Shares and Australian Cash Over 25 Years: Market Falls During The Global Financial Crisis and COVID-19



*Source: Bloomberg, UniSuper. Australian Shares is the S&P/ASX 200 Total Return Index[3] and Australian Cash is Bloomberg AusBond Bank Bill Index[4]. Daily return series applied. *Assumes income is reinvested and no fees, costs, taxes are incurred. Dollar figures are rounded to the nearest 100 for simplicity. Past performance is not an indicator of future performance.*

- **Don't look!**: if sharemarkets are making the headlines, one great strategy is not to look at your account balance. 'Engagement' with your super is understanding how it works, not constantly logging in to check your account balance.

Add three risks to your scorecard

A successful retirement investment strategy goes well beyond investment performance. Ultimately each investor's scorecard of success is personal, but consider adding these questions:

Exhibit 4: Retirement success scorecard

Question	**Position**	**On Track / Off Track**
How has my investment strategy performed?	High Growth Option	On track *Investment returns ~9% p.a. for 20 years*
Do I expect to outlive my savings?	Healthy female with family history of average longevity: *Expect to live until at least 95 years old.*	If a little off track *Consider contributing more into superannuation now; retiring later; taking more investment risk*
Is my investment mix likely to outpace inflation over the long term?	High Growth Option	On track *Investment objective is CPI plus 4% p.a. Objective met over long time periods*
What strategies are in place to help me stick to the plan?	Understand historical market performance and drawdowns.	On track *Revisit charts and call my super fund or adviser if market moves make headlines.*

This scorecard is for illustrative purposes only

These risks might be underrated, but they are key to comfort in your golden years. So, add them to your scorecard and revisit every few years to make sure you're on track for a comfortable retirement.

Annika Bradley is an Investment Specialist at UniSuper, a sponsor of Firstlinks. In previous roles Annika worked with Morningstar and QSuper. 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.

[1] Vanguard: How Australia Retires, 2024
[2] Australian Bureau of Statistics, 2024: https://www.abs.gov.au/statistics/people/population/life-expectancy/latest-release
[3] The S&P/ASX 200 Total Return Index is a product of S&P Dow Jones Indices LLC or its affiliates ("SPDJI"), and has been licensed for use by UniSuper Management Pty Ltd. S&P®, S&P 500®, US 500, The 500, iBoxx®, iTraxx® and CDX® are trademarks of S&P Global, Inc. or its affiliates ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by UniSuper Management Pty Ltd. UniSuper's products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P/ASX 200 Total Return Index.
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[5] CFA Institute: Risk Profiling and Tolerance: Insights for the Private Wealth Manager

100 years of tariff lessons

Anna Wu

The global economy is entering a new era of protectionism, with President Trump's second-term tariffs sparking renewed volatility in global trade. The US has announced a 25% tariff on imports from both Canada and Mexico (with some exemptions) and doubled the existing tariffs on all Chinese imports to 20%. Further, America enacted a sweeping 25% duty on steel and aluminium this week.

As expected, these moves triggered retaliatory responses from the targeted countries, with China imposing 10-15% tariffs on US agricultural products, Canada taking aim with 25% tariffs across more than US$100 billion worth of US imports and Mexico also threatening countermeasures.

However, uncertainty reigns in this tit-for-tat trade war as negotiations continue and the details about tariffs remain in flux.

A tale of tariffs

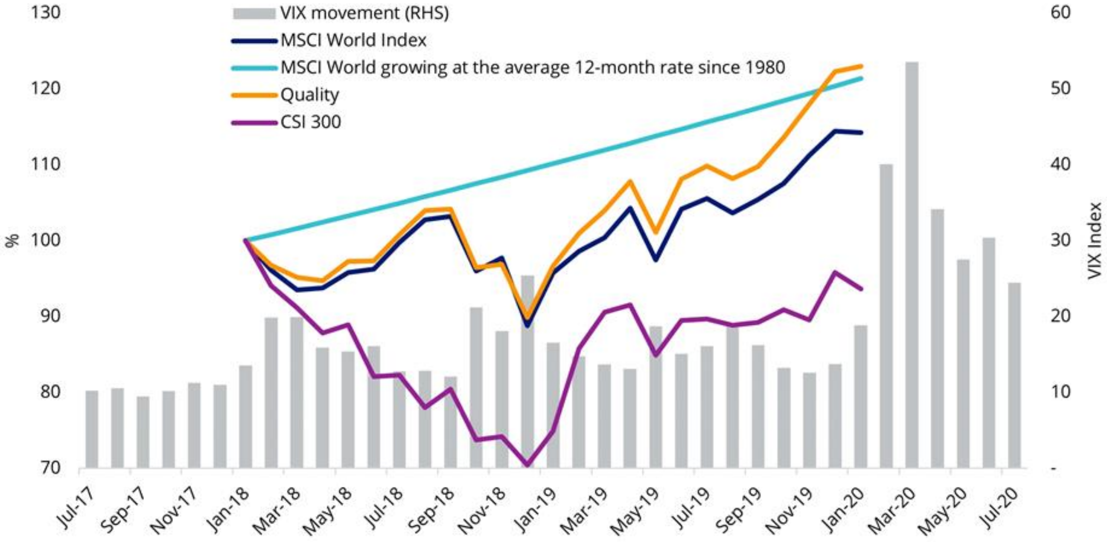
Throughout history, tariffs have been a wildcard for equities, driving market volatility and reshaping investment dynamics. While the outcome of the current trade war remains unknown, we can look to the past for insights. Below we explore three historical scenarios, each set in different growth environments, to see how equities have responded to trade tensions. We also examine the performance 'quality' companies – those with high return on equity, earnings stability and low financial leverage.

US-China trade war (2018–2019)

In the most recent tariff war, the Trump administration imposed 10-25% tariffs on US$250 billion worth of Chinese goods in the technology, machinery, and industrial sectors. In response, China retaliated with US$110 billion worth of tariffs on agriculture, automobiles, and energy goods from the US. A trade deal, known as the 'Phase One Deal', was entered in early 2020, leading to tariff reductions, but the broader impact of the trade tensions took some time to unwind.

Impact on equities in a resilient growth environment: The US was cushioned by a strong growth backdrop, with US Real GDP growing by 2.5% and 3% in 2018 and 2019. Developed markets were also in good shape, and while international equities sold off at the start, they ultimately rebounded with positive gains at the end of the period. China's economy, meanwhile, experienced a noticeable slowdown over this period, and equities declined nearly 30% peak-to-trough. The market started to recover mid-way through the trade war but ended the period with a moderate loss. Notably, quality companies in developed markets demonstrated greater resilience compared to the benchmark, showing a smaller drawdown and faster recovery.

Chart 1: Global equities during US-China trade war



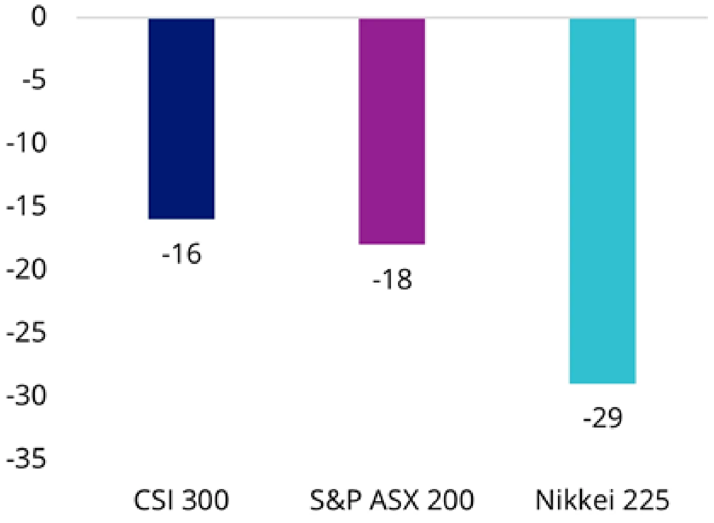
Source: VanEck, Bloomberg. Quality represented by the MSCI World Quality Index. VIX represented by CBOE Volatility Index. from July 2017 to July 2020. Main tariff impacted period from January 2018 to January 2020. You cannot invest in an index. Past performance is not indicative of future results.

Bush steel tariffs (2002–2003)

In 2002, President Bush imposed a 30% tariff on steel imports to protect domestic producers. The initiative backfired, resulting in higher steel prices that hurt US-based manufacturers and automakers, with an estimated 200,000 jobs lost, according to the Consuming Industries Trade Action Coalition (CITAC).

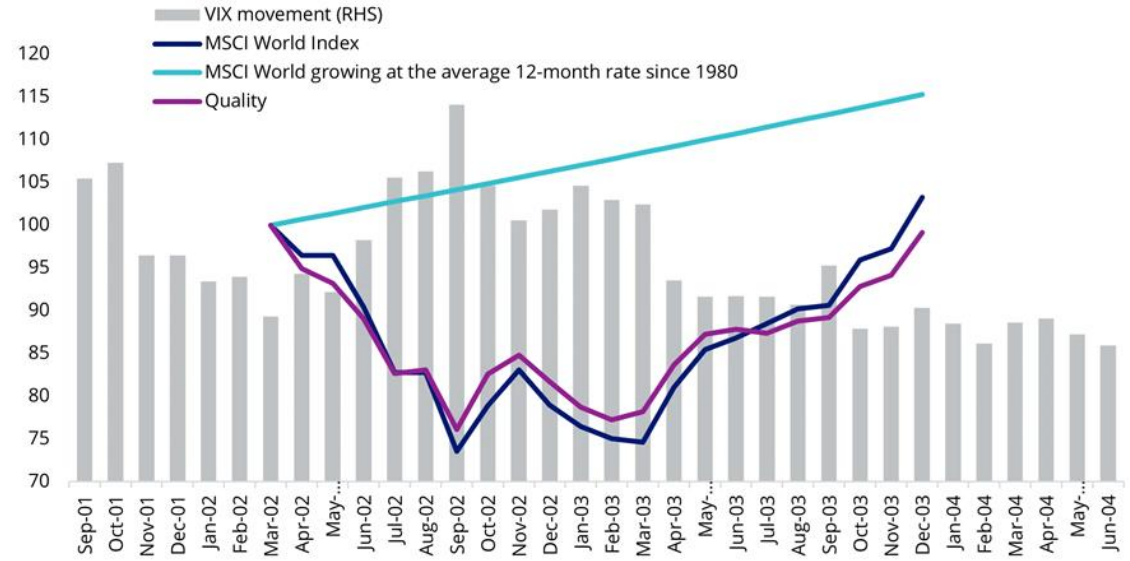
Impact on equities in sluggish growth environment: Bush's tariffs were introduced in a highly turbulent environment, as markets were still reeling from the dot-com bubble. This created a far weaker backdrop for equities compared to the US-China tariff war in 2018-2019. Global equities saw a significant ~26% drawdown in Q4 2002, driven by rising costs, margin pressure, and deteriorating sentiment. Steel exporters, including Japan, China, faced sharp selloffs as reduced demand and margin pressure weighed on earnings. Quality companies, while following the broader trend, saw smaller drawdowns, reinforcing their defensive edge in uncertain markets.

Chart 2: Maximum drawdowns in impacted ex-US markets



Source: VanEck, Bloomberg. Quality represented by the MSCI World Quality Index. VIX represented by CBOE Volatility Index. Data from March 2002 to December 2003. You cannot invest in an index. Past performance is not indicative of future results.

Chart 3: Global equities amid Bush Steel Tariffs



Source: VanEck, Bloomberg. Data from March 2002 to December 2003. You cannot invest in an index. Past performance is not indicative of future results.

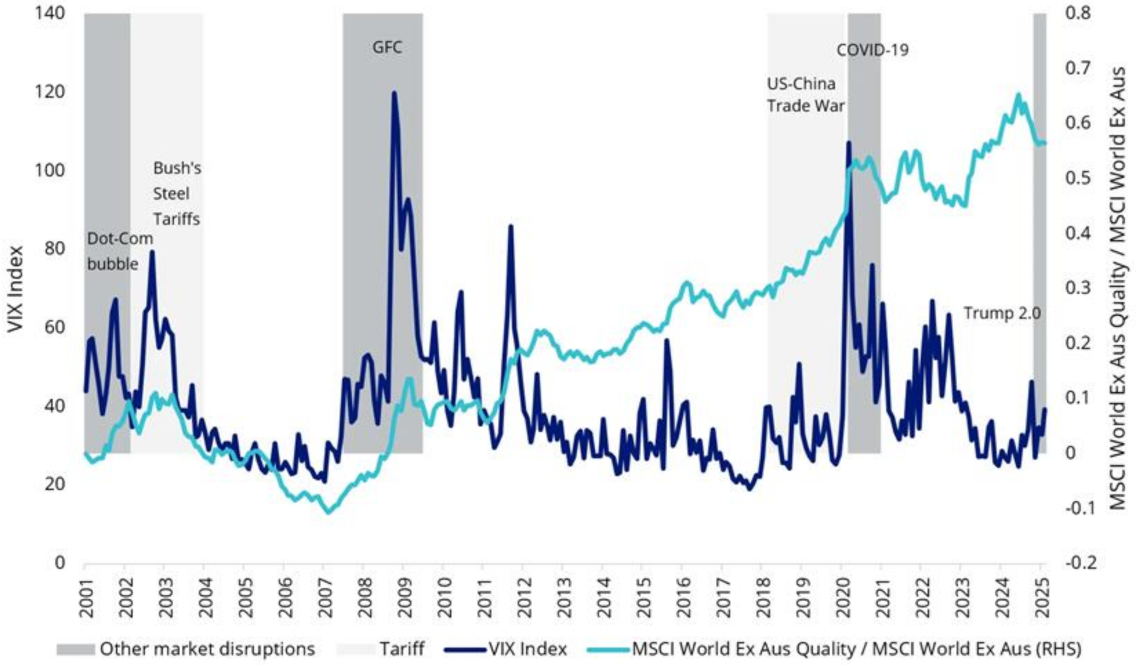
The Smoot-Hawley agricultural tariffs (1930s)

President Hoover's tariffs on agricultural products and related goods were introduced to protect farmers from foreign competition. The tariffs imposed by the Hoover administration triggered a global trade war, with major trade partners enforcing retaliatory tariffs, leading to a 66%[1] collapse in world trade. The tariffs had a devastating effect on the US economy, deepening the global economic downturn known as the Great Depression.

Impact on equities in a deep recession: The S&P 500 index lost more than half of its value, while the Dow Jones, heavily weighted in industrials, collapsed. While we see this as an extreme scenario and consider a full replay in the Trump 2.0 era unlikely, it offers valuable lessons on the disruptive impact of an uncontrolled global trade war.

Taking a quality approach

Chart 4: Quality has outperformed in times of volatility



Source: VanEck, Bloomberg. Data from January 2001 to February 2025. Past performance is not indicative of future results. You cannot invest in an index. index performance is not illustrative of fund performance.

Unlike expansionary markets where sentiment often takes the lead, we believe a tariff-driven environment calls for a sharper focus on company quality and diversification. As Trump unveils his broader trade strategy, prudent investors should be prepared for further market volatility and downside risk in the event of escalating trade tensions.

When sentiment-driven trades unravel, we believe corporate fundamentals matter most. Quality companies - those with strong ROE, earnings stability, and self-sufficiency - have historically shown greater resilience against downturns and times of uncertainty – reinforcing their defensive characteristics. In the chart below, the dark blue line represents international quality companies. When this line rises, it indicates that quality stocks are outperforming the market benchmark.

Source
[1]U.S. Department of State, Office of the Historian. The Smoot-Hawley Tariff and the Great Depression. U.S. Department of State. Web. 27 Feb. 2025. https://history.state.gov/milestones/1921-1936/protectionism.

Anna Wu is a Senior Associate, Cross-Asset Investment Research at VanEck, a sponsor of Firstlinks.

The VanEck MSCI International Quality ETF (QUAL) tracks the MSCI World ex Australia Quality Index and invests in around 300 of the world's highest quality companies. A hedged version of QUAL is also available for investors.

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Amid a tornado of headlines, where can investors find opportunity?

Maroun Younes

There's never a dull moment in equity markets. Even by lofty standards, in a matter of weeks, 2025 has already distinguished itself. We've seen the long-awaited ceasefire in Gaza. The announcement of tariffs on Canada and Mexico, only to see some of them suspended before they were even rolled out. Tariffs on China announced and then countered by China. In the US, President Trump has voiced his intent to take over the Panama Canal, Greenland, and even the Gaza Strip.

Lastly, investors won't forget the ripples caused by DeepSeek, challenging some accepted notions around AI, casually wiping out around US$700 billion in market value off Nvidia in the process. This list is just the tip of the iceberg, with countless other headlines grabbing people's attention. And all before the end of February.

With all this noise in markets, global investors might be reviewing their strategies and wondering, what's next? While we can't predict the future, allow me to share how I'm viewing the market and the key challenges and opportunities that lie ahead.

Batting averages suggest it's time to reset expectations

Off the back of two big years – with the S&P 500 Index up more than 60% on a cumulative basis over 2023 and 2024 – investors will need to be mindful that this has been a relatively rare investing phenomenon.

In fact, in the last 95 years (1,140 months since December 1929), there have been only 56 monthly instances where the previous 24 months have delivered cumulative returns greater than 60%. In other words, that happened only around 5% of the time in 95 years. Bear in mind, this includes a long string of consecutive positive months in the late 1990s when the dotcom bull market was in full swing. In fact, 18 of those 56 instances took place between 1996 and 1999.

When we look at those occasions with returns greater than 60% in the previous 24 months, the average return for the following 12-month period has averaged only 0.08% – basically zero. Take it a step further and exclude the time periods of the roaring dotcom bull market (1996 – 1999), and the average return for the following 12-month period drops to - 9.15%. This is not to say that 2025 is destined to be a disaster; after all, we did see multiple back-to-back strong years in the late 1990s. However, using history as a guide, based on returns in global markets over the last two years, 2025 might prove to be lacklustre.

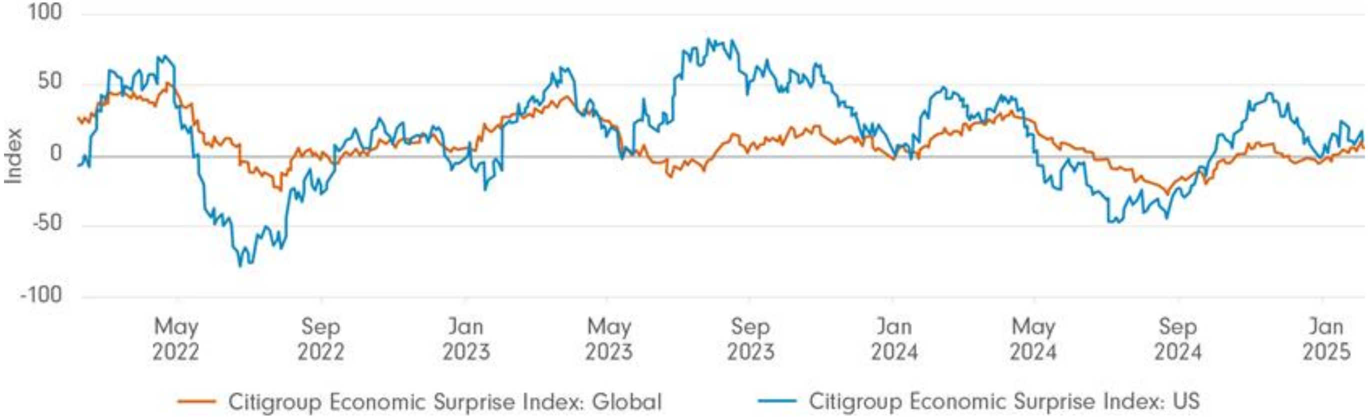
As things stand, consensus expectations for 2025 earnings-per-share (EPS) growth, which measures company profitability, for the MSCI World Index are around 11% vs CY2024. There is a historical tendency for earnings estimates to start off a little more on the optimistic side and then drift down as the year goes on. Allowing for some slippage from here, earnings growth could still be in the region of high single digits, if there is no recession.

No alarm bells ringing, for now

Are there any signals that a recession is looming around the corner? In short, no. If we take a quick look at three useful macroeconomic indicators, we can see that there are no real alarm bells ringing right now.

Looking at the Citi Surprise Index (Figure 1, overleaf), it remains above zero for both the US and global regions, indicating economic performance is generally ahead of expectations. A reading above zero indicates more positive surprises than negative surprises are being experienced, and vice versa.

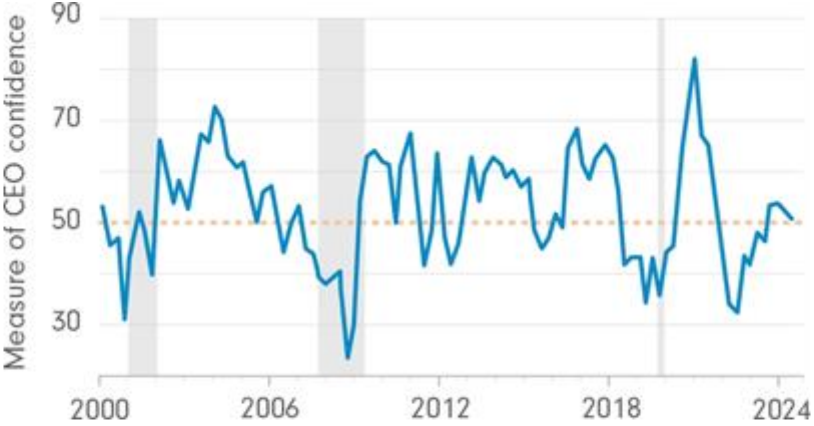
Figure 1. World – Citi Surprise Index



Source: MacroMicro

The Conference Board Measure of CEO Confidence in the US (Figure 2) is still measuring above 50, and this typically drops to 45 or lower immediately ahead of recessions. As we stand, CEO confidence in the US hasn’t dropped to levels typically associated with a recession.

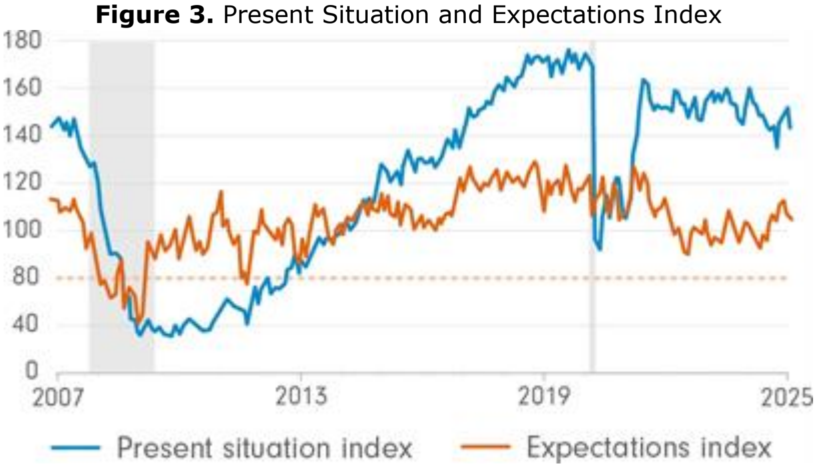
Figure 2. The Conference Board Measure of CEO Confidence



Shaded areas represent periods of recession. Source: The Conference Board

Finally, the Conference Board Consumer Confidence Index also sits pretty. In Figure 3, we see the Present Situation Index (blue) is sitting at a relatively high level from a historical perspective, and the Expectations Index (orange) is currently above 80, which is historically a threshold that, when breached, can be an initial indicator of a pending recession.

Figure 3. Present Situation and Expectations Index



Shaded areas represent periods of recession. Source: The Conference Board. © 2025 The Conference Board. All rights reserved.

Future expectations indicate a more subdued outlook

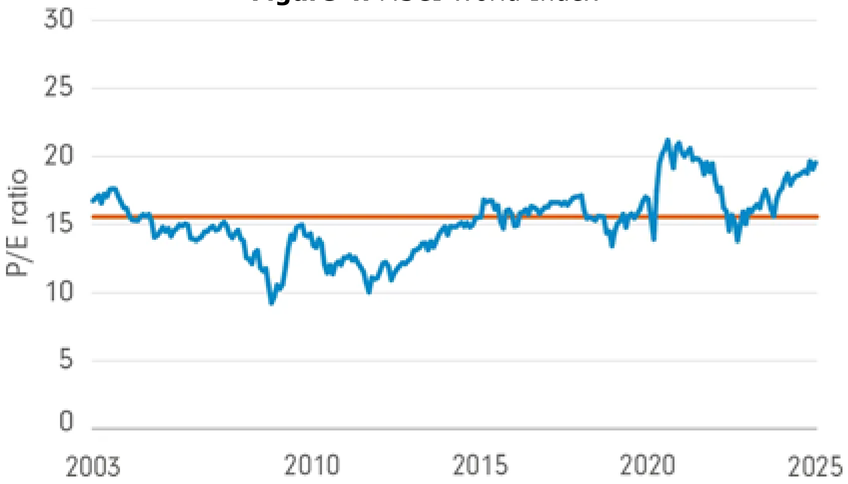
Let's now put some numbers into potential return expectations for global markets for the year ahead, using a framework of assumptions. One way to view returns to equity investors is the sum of the following:

- Changes in EPS, plus
- Changes in the price-to-earnings (P/E) valuation multiple, plus
- Dividend yield

Now let's use this equation with a hypothetical scenario. If I use the 11% EPS growth forecast for the MSCI World Index in 2025, as mentioned earlier, and account for a hypothetical buffer of a 3% reduction in earnings as the year progresses, I can use an EPS growth number of around 8%. EPS is a key component of the P/E valuation ratio.

I can then take an expected current dividend yield of 1.7% for the MSCI World Index and finally, account for any changes to the P/E multiple. This is the most volatile – and the most difficult-to-predict – component, due in part to being influenced by 'animal spirits', or investor sentiment, and is often the most prominent driver of returns. Looking at the historical P/E multiples for the MSCI World Index in Figure 4 below, we see a sombre picture.

Figure 4. MSCI World Index



Source: FactSet, FIL

With a P/E ratio of almost 20 (as indicated on the y-axis), the MSCI World Index is currently trading well above its long-term average of just over 15 x, and near some of its all-time highs, set during the pandemic when central bank interest rates were at or near zero. This naturally creates much more downside risk than upside. While this helped drive strong equity performance over the past two years, I don't think it's wise or prudent to expect a positive contribution from this component. If P/E multiples hold flat in 2025, I expect an 8%

contribution from EPS growth and 1.7% contribution from the dividend yield, giving us almost 10% total return for the year in this scenario.

However, if we see a compression in the P/E multiple, hypothetically down to 18 x (still higher than the long-term average), then I would expect a total return of around 2% for the year. Similarly, a potential compression in the P/E multiple down to 17 x (from the current 19.5 x) could see returns going into negative territory.

With history not on our side, combined with risks of P/E multiple compression, my lacklustre outlook on returns shared earlier continues to seem most likely. Therefore, I believe a good ballpark for returns for global investors could be somewhere between –10% and +10% for the year – a far cry from the lofty highs of the past two years.

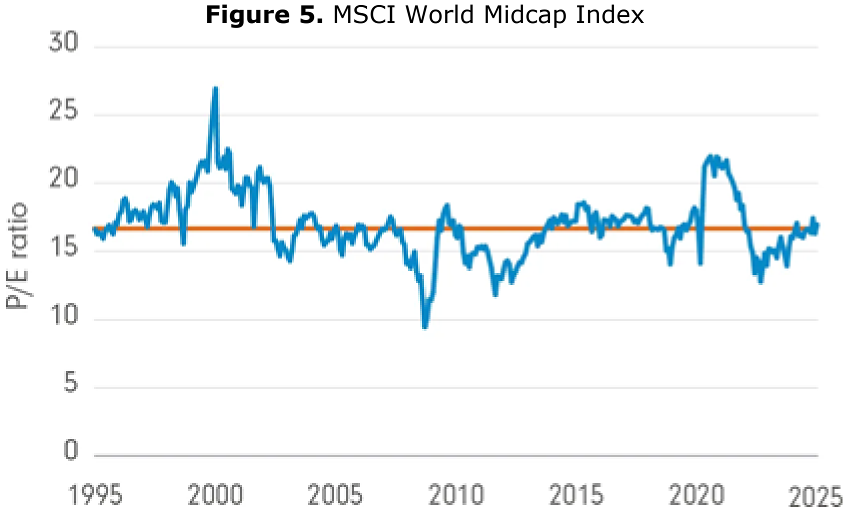
Look beyond the big end of town for opportunity

That being said, what if there are pockets of the market that appear more attractive than the whole? If I look at the midcap space, and repeat the exercise, I get a different picture:

- Consensus estimates for 2025 EPS growth for the MSCI World Midcap Index are around 12.7%. Again, let's handicap this number to account for the typical downgrades that take place throughout the year, and for this scenario we will use 9%.
- The dividend yield presently is 1.9%.

This means that before I consider any changes to P/E valuation multiples, the MSCI World Midcap Index is hypothetically sitting at almost 11% total returns for the year. That is slightly higher than the estimated 10% for the MSCI World Index at the same point in the equation.

Figure 5. MSCI World Midcap Index



Source: FactSet, FIL

This is where things start to get interesting. As you can see from Figure 5, the MSCI World Midcap Index is presently trading at almost 17 x P/E, which is comfortably cheaper than the broad cap index. It's also trading at levels in line with its 30-year historical average, and significantly below its all-time highs. While I'm not going to predict what is going to happen to P/E multiples from here, it seems considerably more likely that the midcap index has room to move higher, or alternatively, less room to fall, as compared to the broad cap index, which is already priced well above historical averages.

New winners will emerge

Last, but not least, we will need to identify new winners in the rapidly changing geopolitical landscape. While Mexico and Canada have evaded tariffs, for now at least, China hasn't been spared. We don't know which country or region will be next, but it seems likely global trade will continue to be a casualty under the new US Administration.

This is an opportunity for investors to consider domestically focused businesses with 'less to lose' from a global trade war. Mega-cap companies with revenues across multiple regions of the world may find this harder to manage, given part of their success has been from global dominance.

Look beyond the headlines

Despite all the noise, we feel there is a compelling opportunity set in global small and midcap companies – based on their current valuations, returns expectations, and with less sensitivity to geopolitical noise.

Our thinking aligns with our Global Macro & Strategic Asset Allocation team who, from a macro perspective, are also very positive on the midcap space, especially in the US. They see strong fundamentals continuing to drive US exceptionalism, preferring more domestically focused business for the reasons I described earlier.

Looking ahead, investors may need to reset their expectations and look beyond the mega–cap darlings of 2023 and 2024 for opportunities, as we expect 2025 will paint a different picture.

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Extending performance tests to retirement super is a bad idea

Ron Bird

During 2018 the Productivity Commission, at the bequest of the government, undertook a study of the efficiency and effectiveness of Australian superannuation funds.

Being very clever economists, they identified several grounds for improvement with perhaps their most insightful observation being that if those who invested in the worse performing funds had invested in the better performing funds, they would have a lot more money.

Such a brilliant observation does not deserve to go unnoticed, and so APRA picked up on it and developed a method to identify the underperforming superannuation funds. They have now been using this method for several years and during this time have forced the closure of many of the worst performing funds or their amalgamation with a better performing fund.

More recently, the Grattan Institute has recommended that APRA should extend its approach to account-based superannuation funds to get a similar performance improvement. Indeed, they went one step further and recommended that a list of ten preferred providers of account-based superannuation products should be drawn up and promoted to retirees as the best place to invest their superannuation balances.

The proposal presented by the Productivity Committee has great intuitive appeal. After all, members with a total of say $2 billion would be $40 million better off if they invested in a fund that returned 10% rather than one that returned 8%. Yes, but then no. Nobel Laurate Bill Sharpe pointed out to us well over 30 years ago that investing is a zero-sum game.

Another way of saying this is that for someone to outperform, someone else has to underperform. Hence, you cannot take funds from a losing fund and give it to a winning fund and assume that everything remains unchanged, including the return earned by the two funds.

In order to see this, let us return to our previous example but assume that the two funds mentioned were the whole market and each had $2 billion in funds. One returned 8% and the other 10% and so the market return was 9%. Now assume that APRA had got rid of the underperforming fund and that all $4 billion is now invested with the better performing fund, which now gets the market return of 9%. So, what have we achieved?

Well, we have certainly improved the returns of those that would have otherwise been invested in the lesser-performing fund, but this higher return has come at the cost of those that would have been invested in the better-performing fund. The fact is that previously we had winners and losers. But if we get rid of the losers from whom the winners were previously profiting, the previous winners are made worse off.

The bottom line is that the economists at the Productivity Commission showed a lack of understanding of how financial markets work when they assumed that you could create wealth simply by moving people from the lesser-performing funds to the better-performing funds. By moving funds from one manager to another you will change the dynamics in the market. The prices of the assets will be different, as will be the returns realised by the various funds. If the returns on the whole market remain unchanged (as was the case in our example), then there will be some winners and some losers but net no wealth has been created.

There are two other considerations that need investigation:

1. Can we expect an overall improvement in the performance of markets simply by closing down the recently poorer performing managers?

This is not entirely impossible as ‘better’ managers may result in capital being allocated to companies that use it more productively, resulting in faster economic growth and better market performance.

In our previous example, assume there was an improvement in allocative efficiency and so the market return was not 9% but was now 9.5%. In this case, the closure of the poorer performing fund would result in an increase in new wealth of $20 million. Those who would have otherwise invested in the poorer-performing manager would be $30 million better off and those already in the better performing managers would be $10 million worse off.

Unfortunately, the evidence does not support the argument that active managers contribute to improved allocative efficiency. Thus, it is likely that APRA’s attempts to rid the industry of inferior managers is only likely to result in wealth being moved between individuals without any additional wealth being created.

2. Can we identify the ‘poorer’ managers simply based on an analysis of past performance?

If we cannot do this, then there is absolutely no basis for excluding funds on the basis of past performance.

In order to address this question, we need to consider whether there is strong persistence in the performance of a fund over time. There have been numerous studies of such persistence through time over many markets. However, before we move to consider the empirical evidence, we should again take some guidance from our friend, Bill Sharpe.

Bill found that it took up to 40 years to identify whether a fund manager lacked the skill for the job. This is an extraordinary amount of time to identify whether an individual (or an organisation) has any special talents in the area in which she/he works. However, there is a good reason why this is the case: the skill-to-luck ratio that determines investment outcomes is extremely high and so it takes an inordinate amount of time/data when using historical evidence to separate skill from luck.

Although APRA makes its determinations based on eight years of data, there are clearly high risks associated with ‘terminating’ managers on this evidence. What is more, we will never know because in most cases the future performance of funds terminated is not measurable.

Now turning to the empirical evidence, we prepared a paper for ASIC about 20 years ago that surveyed the findings in a large number of papers on the persistence in investment performance. We found that there was little evidence to suggest that past performance was a good predictor of future performance even when measured over four-year periods.

Obviously the eight years used by APRA is an improvement but even then, expectations of its adequacy would be low. The results of persistence studies conducted over the last 20 years support our previous conclusion that APRA’s approach would likely be inadequate to identify funds with poor future performance, leading to the oft-stated phase that past behaviour is not a good predictor of future performance.

However, it does not stop there as additional indicators can be used to forecast future fund performance. Presumably some of these indicators are used by those that rank managers/funds for a living. So, how do they perform? Well, the evidence is not compelling and suggests that even the ‘experts’ are unable to consistently add value by their selection methods. Hence the seemingly rational suggestion by Grattan to have a ‘top ten’ list of fund managers is likely to result in more pain than gain.

Emeritus Professor Ron Bird (ANU) is a finance and economics academic and former fund manager.

Winning by not losing: The silver rule of investing

Leigh Gant

There's a peculiar irony in investing: the more aggressively you try to compress your timeline and chase that one massive windfall, the more likely you are to stumble.

Sure, we can't resist a dazzling growth story—finding the next Apple oe Amazon that could turn every dollar into ten. And if you do pick a genuine moonshot, the results can be life-altering. However, concentrating on the chase for a big winner is also a high-risk approach, often leading us to disrupt perfectly good compounding journeys in pursuit of an elusive all-or-nothing success.

One path to lasting wealth, however, isn't about adding more stocks, more trades, or more risk. It's about **subtracting**—removing errors, avoiding catastrophic losses, and letting time do the heavy lifting.

This is the essence of the **Silver Rule of investing**: focus not just on winning, but on *not losing.* As Charlie Munger famously said:

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."

Let's explore why eliminating mistakes—and staying in the game—is often the surest way to harness the power of compounding.

The Battle of Britain: A lesson in strategic subtraction

In a recent interview, Terry Smith of Fundsmith highlighted Air Chief Marshal Sir Hugh Dowding's tactics during the Battle of Britain as a prime example of "winning by not losing." In 1940, the Royal Air Force faced a seemingly insurmountable challenge: defending Britain against the Luftwaffe's 2,800 planes with just 650 fighter aircraft.

Rather than fielding massive 'Big Wing' formations (favoured by Air Vice-Marshal Leigh-Mallory), Dowding and Sir Keith Park used small, frequent sorties, denying Germany a decisive knockout punch. This strategy steadily eroded the Luftwaffe's strength without exposing the RAF to annihilation in one big battle. Unable to claim air supremacy, the Germans eventually abandoned their invasion plans.

Dowding's logic was simple: preserve and endure. Larger formations took too long to assemble and risked the RAF's smaller force all at once. By chipping away at the Luftwaffe bit by bit, the RAF stayed in the fight—and denied the enemy total victory.

Investing works the same way. You don't need to hit home runs to win. You just need to stay in the game long enough for compounding to work its magic. Focus on endurance, not annihilation.

The power of inversion: Avoiding the worst to find the best

In mathematics and philosophy, inversion is a powerful tool for solving problems. Instead of asking, *"How can I find the perfect investment?"* ask, *"How can I avoid the worst ones?"*

This mindset shift is at the heart of the Silver Rule. By focusing on what *not* to do, you create a framework for consistent, long-term success.

For Terry Smith, rather than obsessing over finding the single 'greatest stock ever', his team embraces the motto: "Buy good companies, don't overpay, do nothing." This translates into a portfolio with strong balance sheets, durable competitive advantages, and reliable cash flows. By steering clear of glaring missteps—like overpriced hype stocks—Fundsmith has repeatedly beaten its benchmarks over time

Francois Rochon of Giverny Capital takes a similar approach. He compiles an annual "podium of errors", ensuring that each mistake becomes a lesson rather than a recurring pitfall. It's no coincidence that Giverny has compounded at nearly 15% annually for three decades—that's the power of actively avoiding big blunders.

Ultimately, both Fundsmith and Giverny Capital have landed extraordinary winners in their portfolios, but they arrived there by filtering out the losers first. **Invert your thinking: focus on avoiding the worst mistakes, and the best opportunities will often reveal themselves.**

The amateur's advantage: Letting others lose

In his book *Extraordinary Tennis for Ordinary Players*, Simon Ramo observed a fascinating pattern: amateur tennis matches are rarely won by brilliant plays. Instead, they're lost through unforced errors—balls knocked into the net or sent flying out of bounds.

The same principle applies to investing. Most investors don't lose money because they fail to pick the next Nvidia or Pro Medicus. They lose because they make avoidable mistakes—overpaying for hype, venturing outside their circle of competence, or panic-selling during downturns.

Warren Buffett's first rule of investing – *"Don't lose money"* – isn't about avoiding all losses. It's about avoiding *catastrophic* losses. Just as a recreational tennis player can win by keeping the ball in play, investors can outperform by simply staying in the game. **Let others lose by avoiding unforced errors.**

Compounding: The silent multiplier

The real magic of the Silver Rule lies in its ability to protect your capital, giving compounding room to work. Compounding isn't just about returns; it's about *time*.

And time is the one resource you can't replenish.

A single catastrophic loss can derail years of progress. For example, a 50% loss requires a 100% gain just to break even. By avoiding such setbacks, you keep your compounding engine running smoothly.

This isn't about being ultra-conservative or avoiding risk altogether. It's about making *judicious* decisions—investing in businesses you understand, avoiding speculative bets, and managing your emotions. Over time, these small, consistent wins can compound into something extraordinary. **Protect your capital to let compounding work its magic.**

The slow path to big wins

History shows that the investments that deliver 50x or 100x returns often take *decades* to materialise. Think of Nvidia (NASDAQ:NVDA), which spent years as a niche graphics card company before becoming a leader in AI and data centres. Or Pro Medicus (ASX:PME), which quietly revolutionised medical imaging software over two decades before its stock soared.

The key to finding these outliers isn't frenetic trading or chasing hot tips. It's patience—staying invested in quality businesses and avoiding the mistakes that could knock you out of the game.

By focusing on subtraction—removing errors and avoiding catastrophes—you put yourself in the best position to benefit from these rare, transformative winners. **Patience pays: the biggest winners often take decades to materialise.**

Final takeaway: Embrace the Silver Rule

In a world obsessed with instant gratification and quick wins, the Silver Rule offers a refreshing counterpoint. It's not about being the smartest person in the room or predicting the next big thing. It's about being disciplined, patient, and humble enough to avoid stupidity.

As Munger reminds us, *"It's not supposed to be easy. Anyone who finds it easy is stupid."*

So, the next time you're tempted to chase a hot stock or make a speculative bet, ask yourself: *"How can I avoid losing?"* By focusing on subtraction, you'll not only protect your capital but also create the conditions for compounding to work its magic.

In the end, the surest path to winning is often simply *not losing.*

Leigh Gant is the Founder and CEO at Unio Growth Partners. This article is for general information purposes only as it does not consider the individual circumstances of any person. Investors should seek professional investment advice before acting.

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