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Editorial

Recent earnings results from the US tech giants were eye-opening. Alphabet and Microsoft reported net profits of US\$24 billion and US\$22 billion respectively for the March quarter alone. That dwarfs what our largest stock, BHP, earns in a whole year (US\$14 billion).

Though the 'Magnificent Seven' tech stocks have somewhat given concerns about the pace of Fed rate cuts, their aggregate market capitalization of close to US\$13 billion is still larger than the world's third, fourth and fifth economies (Germany, Japan, and India) combined.

Here's another statistic for you: Microsoft, Alphabet, and Meta, will spend more on capital expenditure (capex) than the entire private sector in Australia. Those tech giants are forecast to spend a total of US\$115 billion in capex, compared to our private sector's US\$114.6 billion.

BHP is looking to spend US\$10 billion in capex this financial year, while the ASX's second largest stock, CSL, is forecasting US\$800 million.

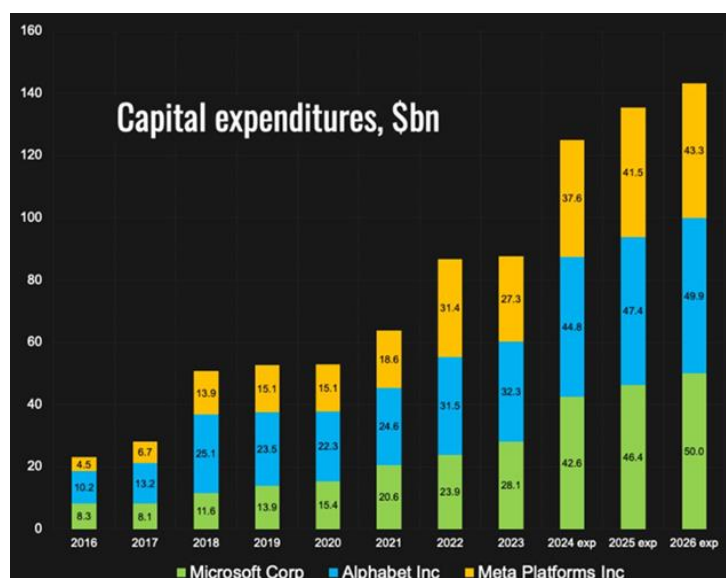
The capex figures do make me wonder whether the dividend fetish of Australian companies and investors may be good for shareholders but bad for the country. That is, increased investment could drive greater economic growth and productivity.

And our focus on dividends may not even be positive for shareholders. As Roger Montgomery argued in [Firstlinks late last year](#),

the ASX 200 has essentially gone nowhere over the past 16 years, while the US market has boomed. And he puts the blame on high dividend payout ratios aided by Australia's favourable dividend imputation system.

Granted, comparing Australia to the US isn't an apples-to-apples comparison. The ASX relies on banks and miners, the former a mature and the latter a highly cyclical one. Investment in these sectors can't be expected to keep up with the likes of tech.

Though the issue warrants greater debate.



Source: LSEG

You’ve got to hand it to the \$223 billion Future Fund – it’s nailed several calls of late. In September 2021, 18 months into the pandemic, it wrote a paper suggesting that a new world investment order was emerging. It detailed 10 paradigm shifts including deglobalization, increased populism, higher inflation, and bonds providing less downside protection in an inflationary world.

In December 2022, it followed up with another paper asking whether we were witnessing the death of traditional portfolio construction - that is, whether the paradigm shifts it detailed previously were making long-held approaches redundant. It noted how its portfolio had changed to reflect these shifts, including adding more private equity to increase potential returns, greater exposure to inflation hedges such as commodities, including gold, and infrastructure, and holding a broader basket of currencies due to growing risks from deglobalization and geopolitics.

Fast forward to today, and higher than expected inflation is again rearing its head, leading to potential rate cuts in Australia and other developed markets being pushed back. Bonds have been smashed this year again, making it the longest bear market ever for the asset. Meanwhile, gold has proved a useful inflation hedge, as have other commodities such as oil and copper.

The portfolio changes have allowed the Future Fund to deliver decent recent returns. In the first three months of this year, assets grew by \$11.5 billion, for a 5.4% return. And the fund is on track for an annual return for the 2024 financial year of 8.3%. The fund has 37% of its assets in listed equities, 33% in debt securities, cash and alternative investments, and 30% in real estate, private equity, and infrastructure.

In its latest update, the fund highlighted that it still sees sticky inflation ahead. It also pointed to credit investments as attractively priced in a world of persistently higher rates.

The most significant, yet underappreciated, story in global markets over the past few weeks has been the sharp fall in the Japanese Yen. Briefly, the Yen weakened to 160 against the US dollar for the first time since 1990. About 2.5 hours after that milestone was reached, the Yen quickly cratered 2.5% - a seismic move in currency terms. There was unconfirmed speculation of government intervention to prop up the currency.

As for what caused the initial decline in the Yen, there’s little doubt that higher than expected US inflation and reduced expectations for rates cuts there have helped the US dollar and pressured other currencies.



Source: Trading Economics

Japan is a unique case because of its tenuous economy and government finances. Clime’s John Abernethy [recently wrote](#) of how Japan’s net government debt of 250% of GDP makes it the king of debt in a highly indebted world. He said:

"The experience of Japan is incisive because it shows that money printing (QE) does not necessarily cause either inflation, severe devaluation or economic calamity. Indeed, it suggests that QE is a viable (but not yet well-understood) economic tool."

I don't agree with John here as the unintended consequences of Japan's unconventional policies may be ahead, rather than behind us. The debate makes the Yen's latest moves a fascinating watch.

What the Yen's decline also does though is put enormous pressure on other major exporters such as China and South Korea. A large fall in the Yen, as has just happened, makes Japan's exports much more attractive vis-à-vis its neighbours.

China is already dealing with a property hangover that's curtailing economic growth. Now, its biggest rival threatens to take market share in goods exported to consumers in a booming US economy.

As Martin Dropkin, Fidelity's Head of Equities, Asia Pacific, suggested in a recent media briefing in Sydney, the question is whether China will weaken or devalue the Yuan to make its exporters more competitive. It would be a huge move that would anger the US, and risk escalating trade wars.

In my article this week, I look at how growth investors are using [Buffett and Munger to justify buying blue chip stocks](#), at almost any price. It's a recipe for potential disaster, as investors in market darlings like CBA and Cochlear may be about to find out.

James Gruber

Also in this week's edition...

Australia's population is not only growing fast, but our cities are becoming denser. Surprisingly, Melbourne and Adelaide top Sydney in terms of density for capital cities. This and other trends are analysed by **Tim Lawless**, and he also [explores the implications for the housing market](#).

Liam Shorte returns with another definitive guide for SMSFs and other super funds for end of financial year matters. He provides a [24 point checklist](#) of the most important issues to address.

Nvidia has taken the world by storm over the past year, yet there are a lucky few who've been invested in the stock for a long time. One of them is **Alex Pollack** from **Loftus Peak**, who first bought Nvidia shares back in 2016. He details his original investment case eight years ago, how it's evolved, and what he [foresees for the company](#) in the coming years.

In an era where growth companies dominate and the likes of Nvidia grab all of the attention, dividend paying stocks are flying under the radar. However, **Eric Marais** from **Orbis** says some of these stocks are now [worth a look as they offer compelling potential returns](#).

Australia may be a rich country, yet like a lot of developed countries, measures of happiness among its people are flat or going backwards. Some economists think that we need to focus less on GDP and more on broader measures of well being. **AMP's Shane Oliver** [delves into these issues](#) and whether change is needed.

After more than a decade of pitiful yields, bonds are back offering better prospects for income investors. What are the best ways to [take advantage of the market inefficiencies in Australian fixed income](#)? **Western Asset Management's Jonathan Costello** has some ideas for you.

Finally, in this week's whitepaper, **Anthony Doyle** from **Firetrail**, a **Pinnacle** affiliate, analyses why [demand for electric vehicles has stalled](#).

Exploiting Warren Buffett

James Gruber

Warren Buffett and his former offside Charlie Munger are treated like investing royalty, and rightly so. Yet, their success also makes them valuable marketing tools. For journalists looking for headline clickbait. For fund managers looking to bask in their wisdom and afterglow. And likewise for CEOs.

It's a newer trend which disturbs me more. That is, of growth investors selectively quoting Buffett and Munger to justify their purchases of 'wonderful' businesses, or compounders.

Invariably, the story is told of how Munger turned Buffett from a Ben Graham-type value investor into a growth investor. It's supported by quotes from Buffett like these:

"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price."

"If a business does well, the stock eventually follows."

"Only buy something that you'd be perfectly happy to hold if that market shut down for 10 years."

As well as by quotes from Munger like this:

"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6% return—even if you originally buy it at a huge discount."

Growth investors are rightly basking in a golden era where their style of investing has crushed indices. Since the GFC, growth investing has reined supreme, while the likes of value have been pulverised. Fast growing companies such as the 'Magnificent Seven' in the US, and Cochlear, Pro Medicus, and Technology One in Australia have delivered incredible returns for shareholders.

Yet the past isn't the future, and one key component of Buffett and Munger's investing is increasingly being ignored: that buying stocks at the right price matters too.

Here's Buffett on the topic:

"Price is what you pay. Value is what you get."

"For the investor, a too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favourable business developments."

"The three most important words in investing are margin of safety."

"Most people get interested in stocks when everybody else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

And here's Munger:

"You're looking for a mispriced gamble. That's what investing is. And you have to know enough to know whether the gamble is mispriced. That's value investing."

The growth mantra

Let's look at an example of what I'll call the 'growth investing mantra'. Last week, Rudi Filapek-Vandyck wrote an article for [Firstlinks](#) on the virtues of buying wonderful businesses like CBA. Rudi is a quality thinker and writer, though I respectfully disagree with some of his conclusions.

In the article, Rudi suggests that the reason that US markets have crushed Australia's since the GFC is because they have a greater number of high-quality businesses. That's undoubtedly correct.

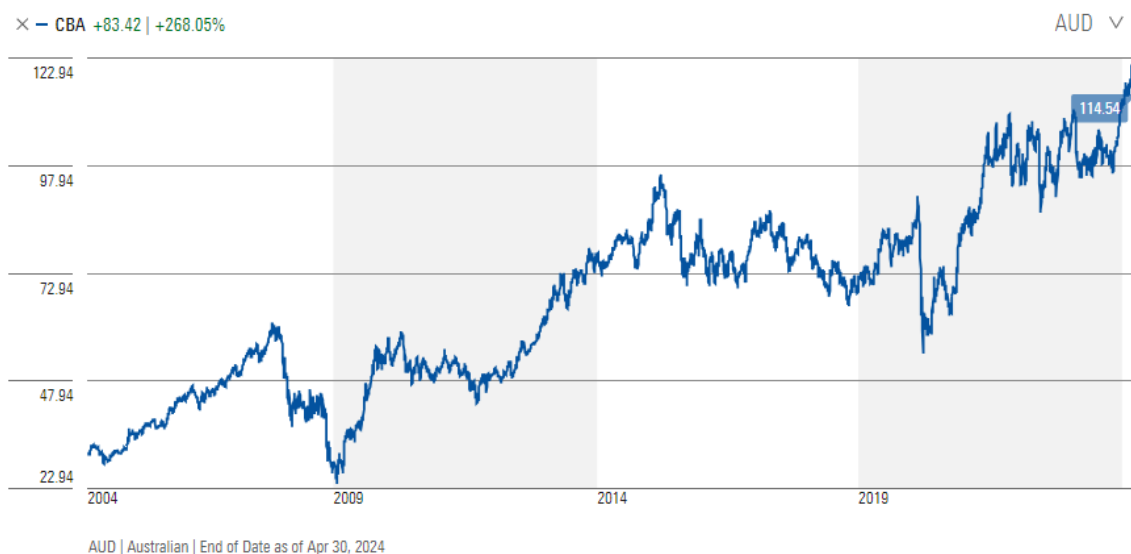
He goes on to say that Australia still has some quality growth stocks. He compares CBA to the rest of the major banks. Over the past 20 years, NAB has delivered minimal returns, ex dividends.



Source: Morningstar

Westpac has done a bit better. From the bottom of the GFC, it's risen 4.7% per annum. Including dividends and franking, brings that return up to 9-10%. Yet, most other timeframes other than from the bottom of the GFC would have delivered little in returns for investors.

Compare that to CBA. From March 2009, it's returned 22% per annum, ex dividends.



Source: Morningstar

It's quite the contrast. And what accounts for the very different returns from CBA versus the other banks? According to Rudi, it's the quality of CBA compared to the rest. And he says that CBA has been the most expensive bank throughout that 16-year period, and it's still delivered the best returns. The lesson? Buy the best companies.

What's missing?

What he doesn't mention though is that earnings growth for CBA has been mediocre since the GFC. Diluted earnings per share (EPS) was 313.4 cents in 2009, and that went up to 601.4 cents last financial year. That's an EPS compound annual growth rate of 4.4%. If we reduce the timeframe from 15 years to the last decade, EPS has compounded at an annual rate of 2.32%.

In other words, the bulk of the fantastic returns of CBA over the past 15 years has come from multiple expansion – the multiple that investors have been willing to pay for those CBA earnings.

When CBA bottomed in March 2009, it traded under \$25. Then, the price-to-earnings ratio (PER) was around 8x 2009 earnings, or less than 7x 2008 earnings. The stock was dirt cheap at that stage.

Since then, the PER has risen to a peak above 20x in March this year, and it's just under that now.

The upshot is that there is a vast difference in the valuation attached to CBA now versus 2009. Today, the shares trade for almost 3x the multiple they did back then. Your starting point today is that you're paying almost 20x earnings for a stock growing EPS at 2% per annum.

CBA's potential returns over the next decade

What can we expect for returns from CBA over the next 10 years? We can use a simple but useful formula:

Expected returns (nominal, annualized over the next 10 years) = Starting dividend yield + Earnings growth + percentage change (annualized) in the PER multiple.

CBA's dividend yield is 3.78% and if we plug in 2.32% EPS growth, as it's averaged over the past decade, that gets us to total annual returns of 6.01%.

Of course, earnings going forward are dependent on numerous things, and past earnings may not be indicative of future ones. I'd argue that the earnings assumption is probably realistic. The past decade has delivered an enormous housing boom that's fuelled CBA's loan book. Yet, it's also suffered from poor margins due to low interest rates throughout much of the period. Costs have also spiked from increased technology spend and more recently, wages.

Looking ahead, margins should improve as rates stay higher, though that may be crimped by the increased competition for deposits from the likes of Macquarie. On the other hand, it's harder to see the housing boom being replicated, and bad debts staying as low as they have been.

A big swing factor for returns will be whether CBA can retain its current PER multiple of ~20x. If it does, then shareholders can expect around that 6% in total return, provided my earnings assumption proves right. If the multiple is cut to 15x, and assuming the same earnings growth, then expected total annual returns would fall to just 3.8%.

Whether you use heroic or conservative earnings assumptions, the maths suggest that CBA won't deliver anything but mediocre to poor returns over the next decade. And it's principally because the current share price is exorbitant for a slow growing stock.

Other market darlings

With growth stories scarce in Australia, investors seem willing to pay up, and then some, for a select group of other stocks too. For instance, Cochlear is trading at a cool 46x next year's earnings. That's for a stock that's grown EPS at 9% and 7% per annum over the past five and ten years respectively.



Source: Morningstar

Cochlear's PER equates to an earnings yield of just 2.17% (earnings yield is the inverse of PER, or earnings divided by price). That earnings yield is under half the 10-year Australian government bond yield, or risk-free rate, of 4.5%. In other words, you can invest in a risk-free bond at more than 2x the yield that you'll get from investing in Cochlear.

Cochlear is also trading at a steep premium to most of the Magnificent Seven tech stocks in the US, which are growing much more strongly. For example, Nvidia is trading on a forward PER of 36x, and Microsoft is at 29x.

On a lot of fronts, Cochlear's pricing doesn't make sense. And that will impact its future returns. If the PER drops from the current 46x to 30x, that will shave almost 5% per annum off total returns over a 10-year period. Investors will need very strong earnings growth over that period, or the multiple to stay near where it is now, for the stock to return anything close to the ASX 200 over that same period.

That also assumes that the business doesn't trip up during that time, which is far from a sure thing.

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

Population density trends and what they mean for housing

Tim Lawless

With Australia's population moving through the fastest rate of growth since the 1950's, our cities and towns are naturally densifying. At a national level, the population density of 3.5 people per square kilometre (sq. km) is

among the lowest in the world, highlighting our highly urbanised population where half the populace lives in the three largest cities. In fact, 75% of Australia’s population resides on just 2.6% of the land mass.

The density of the population, which is simply the number of residents divided by the land area, becomes more relevant at a city level and even more interesting across smaller areas.

Melbourne and Adelaide have the highest population density

At the capital city level, the highest population density may come as a surprise – it’s not Sydney. In fact, Sydney comes in third on the population density leagues tables with 441 residents per sq. km. Melbourne (521 people per sq. km) and Adelaide (444 people per sq. km) both show an overall population density that is higher than Sydney’s.

Sydney’s lower population density relative to Melbourne and Adelaide comes despite Sydney having a larger portion of medium to high density housing stock (units comprise 39.5% of all Sydney dwellings compared with 33.4% in Melbourne), and generally smaller blocks of land (the median land area for houses sold over the past year, at 569sqm was the second lowest of any capital after Perth).

An important factor contributing to the lower population density across Sydney is the larger land area that comprises the metropolitan region. The Sydney metro area, as defined by the 2021 Greater Capital City Statistical Area (GCCSA) boundary, includes the Central Coast, the Blue Mountains, Penrith and Sutherland covering 12,369 sq. kms.

Every capital city is recording a rise in population density, however, the way this is occurring is quite different from region to region.

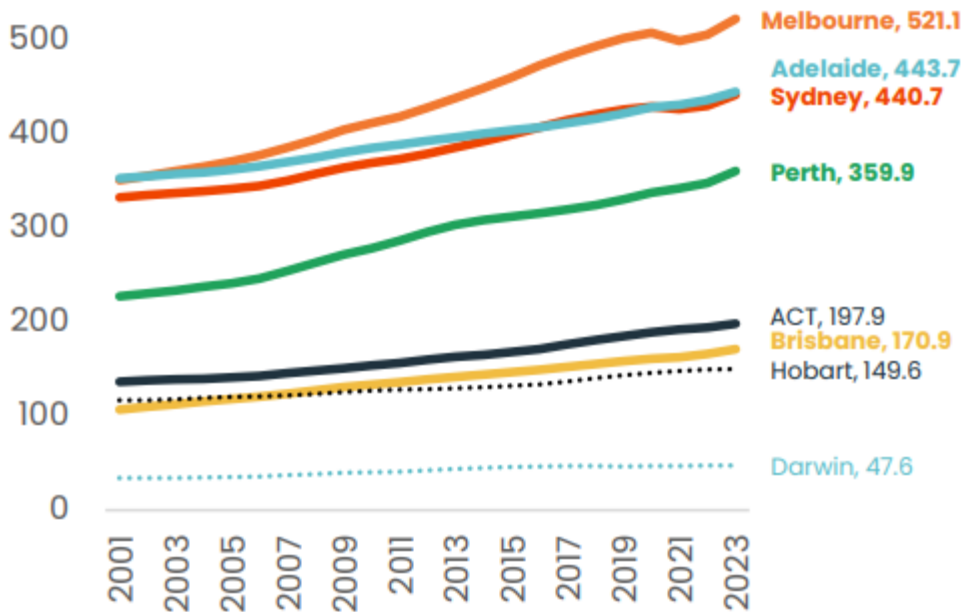
For example, Perth has recorded the largest increase in population over the past 20 years, with 54.4% more residents, yet it has the highest portion of detached houses of any capital, comprising 85.5% of the housing stock. Rather than ‘building higher’, Perth has densified via smaller block sizes for detached housing alongside a sprawling urban footprint, where the population has spread to the northern and southern fringes of the city.

A different example of densification can be seen in the ACT, where medium to high density housing stock has risen from a share of 25.1% of all dwellings 10 years ago to 34.2% in 2024, while the median block size for houses sold over the past 12 months remains among the highest of any capital at 750sqm.

Figure 1: Summary of population density over the past 20 years

GCCSA name	Land area (sq km)	Estimated residential population			Population density (residents/sq. km.)		
		2003	2013	2023	2003	2013	2023
Melbourne	9,993	3,594,031	4,370,067	5,207,145	359.7	437.3	521.1
Adelaide	3,260	1,162,250	1,289,696	1,446,380	356.5	395.6	443.7
Sydney	12,369	4,162,593	4,757,364	5,450,496	336.5	384.6	440.7
Perth	6,417	1,496,016	1,943,855	2,309,338	233.1	302.9	359.9
ACT	2,358	327,357	383,257	466,566	138.8	162.5	197.9
Brisbane	15,842	1,780,650	2,241,944	2,706,966	112.4	141.5	170.9
Hobart	1,695	199,788	219,315	253,654	117.8	129.4	149.6
Darwin	3,168	108,433	138,471	150,736	34.2	43.7	47.6
Capitals	55,101	12,831,118	15,343,969	17,991,281	232.9	278.5	326.5
Regional	7,632,738	6,887,283	7,781,198	8,652,627	0.9	1.0	1.1
Total Australia	7,687,839	19,718,401	23,125,167	26,643,908	2.6	3.0	3.5

Source: CoreLogic, ABS

Figure 2: Population density, Australian capitals (Number of residents per sq. km)

Figure 3: SA2 leagues tables: highest population density in 2023

Top 20 ranked SA2's, Australia

SA2 name	SA4 name	Area sqm km	Estimated residential population			Population density (residents/sq km)			National density rank		
			2003	2013	2023	2003	2013	2023	2003	2013	2023
Melbourne CBD - North	Melbourne - Inner	0.6	2,969	9,591	21,566	5,287	17,078	38,401	46	1	1
Southbank - East	Melbourne - Inner	0.8	4,677	9,873	18,748	5,817	12,280	23,318	33	9	2
Sydney (South) - Haymarket	Sydney - City and Inner South	1.1	11,889	18,142	22,653	10,998	16,783	20,956	3	2	3
Chippendale	Sydney - City and Inner South	0.5	3,461	6,110	9,282	7,456	13,162	19,996	12	7	4
Melbourne CBD - West	Melbourne - Inner	1.0	2,974	10,413	20,027	2,959	10,360	19,925	195	12	5
Wolli Creek	Sydney - Inner South West	0.7	1,978	4,311	11,872	2,911	6,344	17,472	203	49	6
Zetland	Sydney - City and Inner South	0.8	1,524	6,082	13,968	1,894	7,558	17,358	536	32	7
Ultimo	Sydney - City and Inner South	0.6	4,883	8,261	9,316	8,738	14,783	16,671	6	3	8
Waterloo	Sydney - City and Inner South	1.1	7,488	12,380	17,851	6,604	10,918	15,743	20	11	9
Melbourne CBD - East	Melbourne - Inner	0.8	5,457	9,646	12,408	6,804	12,027	15,471	17	10	10
Pyrmont	Sydney - City and Inner South	0.9	9,123	13,155	13,735	9,811	14,147	14,770	5	5	11
Potts Point - Woolloomooloo	Sydney - City and Inner South	1.5	17,289	20,763	19,076	11,813	14,186	13,034	1	4	12
Darlinghurst	Sydney - City and Inner South	0.9	9,093	11,640	11,124	10,612	13,584	12,982	4	6	13
Surry Hills	Sydney - City and Inner South	1.3	14,764	17,103	16,781	11,215	12,992	12,748	2	8	14
Rhodes	Sydney - Inner West	1.0	477	8,666	12,263	474	8,614	12,190	1,245	17	15
Carlton	Melbourne - Inner	1.8	10,611	16,719	21,376	5,834	9,193	11,753	32	14	16
South Yarra - North	Melbourne - Inner	1.2	5,520	8,102	12,938	4,720	6,927	11,062	65	38	17
Hurstville - Central	Sydney - Inner South West	1.2	7,112	9,683	13,413	5,799	7,895	10,937	35	22	18
West Melbourne - Residential	Melbourne - Inner	0.8	2,570	4,461	8,724	3,116	5,409	10,578	169	76	19
Newtown (NSW)	Sydney - City and Inner South	1.6	13,239	15,276	15,397	8,429	9,726	9,803	7	13	20

Top ranked SA2's for each capital outside Sydney and Melbourne

SA2 name	SA4 name	Area sqm km	2003	2013	2023	2003	2013	2023	2003	2013	2023
Fortitude Valley	Brisbane Inner City	1.3	3,873	6,198	11,016	3,039	4,863	8,643	181	92	27
Kingston (ACT)	Australian Capital Territory	1.4	1,929	3,757	7,227	1,374	2,676	5,148	807	344	107
Perth (North) - Highgate	Perth - Inner	3.0	7,566	11,482	12,879	2,553	3,874	4,345	278	145	149
Unley - Parkside	Adelaide - Central and Hills	7.1	19,618	20,583	21,759	2,774	2,910	3,077	223	293	313
Nightcliff	Darwin	1.5	3,574	4,161	4,076	2,463	2,867	2,809	308	299	376
West Moonah	Hobart	1.8	3,883	3,913	4,327	2,172	2,189	2,421	401	521	519

Top 10 ranked SA2's for regional Australia

SA2 name	SA4 name	Area sqm km	2003	2013	2023	2003	2013	2023	2003	2013	2023
Surfers Paradise - North	Gold Coast	2.5	8,042	10,250	13,767	3,273	4,172	5,603	143	125	97
Mermaid Beach - Broadbeach	Gold Coast	3.0	9,794	11,720	15,313	3,266	3,908	5,107	144	141	110
Surfers Paradise - South	Gold Coast	3.3	9,735	12,190	16,065	2,915	3,651	4,811	202	174	118
Labrador	Gold Coast	5.0	15,542	17,918	19,367	3,111	3,587	3,877	171	179	190
Coolangatta	Gold Coast	1.9	4,688	5,813	6,906	2,465	3,057	3,632	306	256	223
Newcastle - Cooks Hill	Newcastle & Lake Macquarie	4.0	8,998	10,991	13,764	2,262	2,764	3,461	364	329	249
Biggera Waters	Gold Coast	3.2	5,036	7,617	10,654	1,586	2,399	3,356	689	431	266
Wollongong - East	Illawarra	5.5	10,155	13,656	17,078	1,845	2,481	3,103	564	402	307
Wollongong - West	Illawarra	5.7	15,051	16,633	17,039	2,660	2,939	3,011	249	282	328
Varsity Lakes	Gold Coast	6.0	9,185	15,322	17,688	1,544	2,575	2,972	711	363	339

Source: CoreLogic, ABS

A closer look at the capital city trends

Analysing population density at a geographically granular level reveals inner city precincts of Melbourne and Sydney dominate the highest density locations nationally, however the rankings of density have changed remarkably over the past 20 years.

In 2003, areas of Sydney comprised 19 of the top 20 SA2's for the highest population density. Melbourne's CBD-East was the only non-Sydney area included in the top 20, ranked 17th.

Fast forward to 2023 and the data shows Sydney now comprises 'only' 13 of the top 20 highest density SA2's, with Melbourne now occupying seven of the top 20, including the top two positions.

Melbourne's CBD-North has topped the list for the highest population density in Australia since 2013. This 0.6 square kilometre area that includes the RMIT campus and Victoria Markets, was home to 21,566 residents in 2023, equating to a population density of 38,401 residents per sq. km. In 2001, this precinct was ranked 187th for population density nationally.

Melbourne's Southbank-East SA2 region has ranked second for population density since 2019, climbing from a ranking of 113th in 2001.

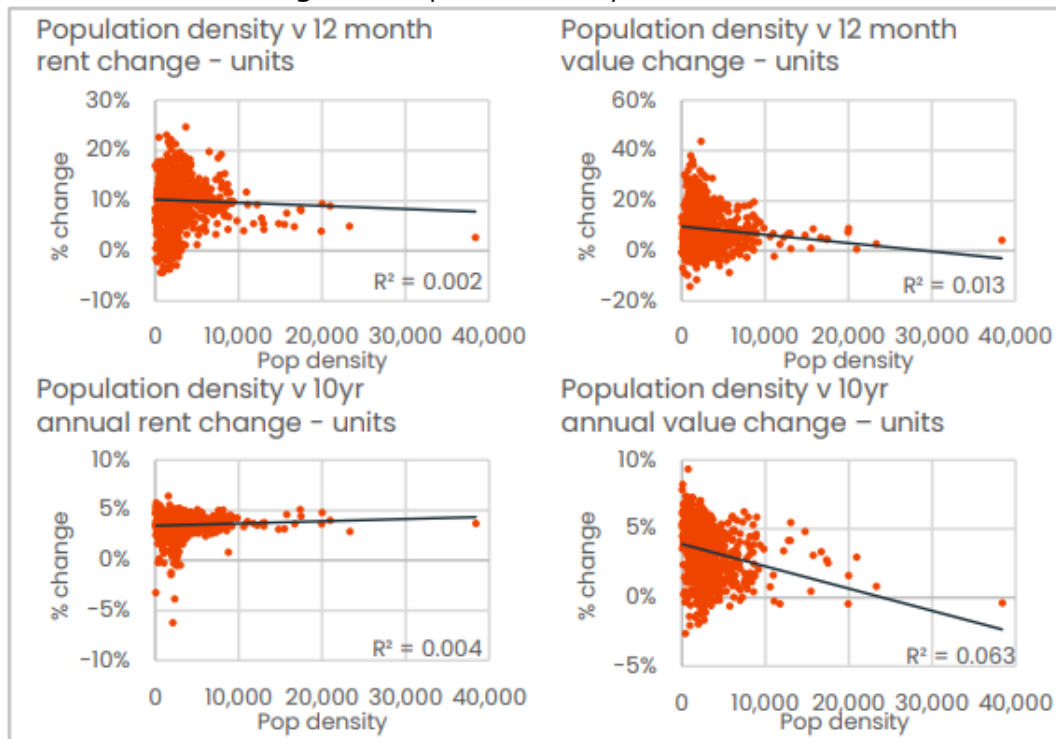
The Sydney (South)-Haymarket SA2 was ranked third for population density, slipping from a consistent number one ranking between 2009 and 2012, followed by Sydney's Chippendale and Melbourne CBD-West rounding out the top five regions for population density.

Outside of the Sydney and Melbourne metro areas, the SA2 regions with highest population density nationally were concentrated in Brisbane (Fortitude Valley was ranked 27th nationally, home to 8,643 residents per sq. km), the Gold Coast (Surfers Paradise – North was ranked 97th) and the ACT's Kingston (107th).

Population density and housing

The relationship between population density and rental growth is weak. Population density across the unit sector provides little explanatory value about unit rental growth over the past 12 months or the past 10 years. Areas with a high population density have shown slightly stronger rental appreciation over the past 12 months relative to lower population density areas, but slightly weaker growth over the past decade.

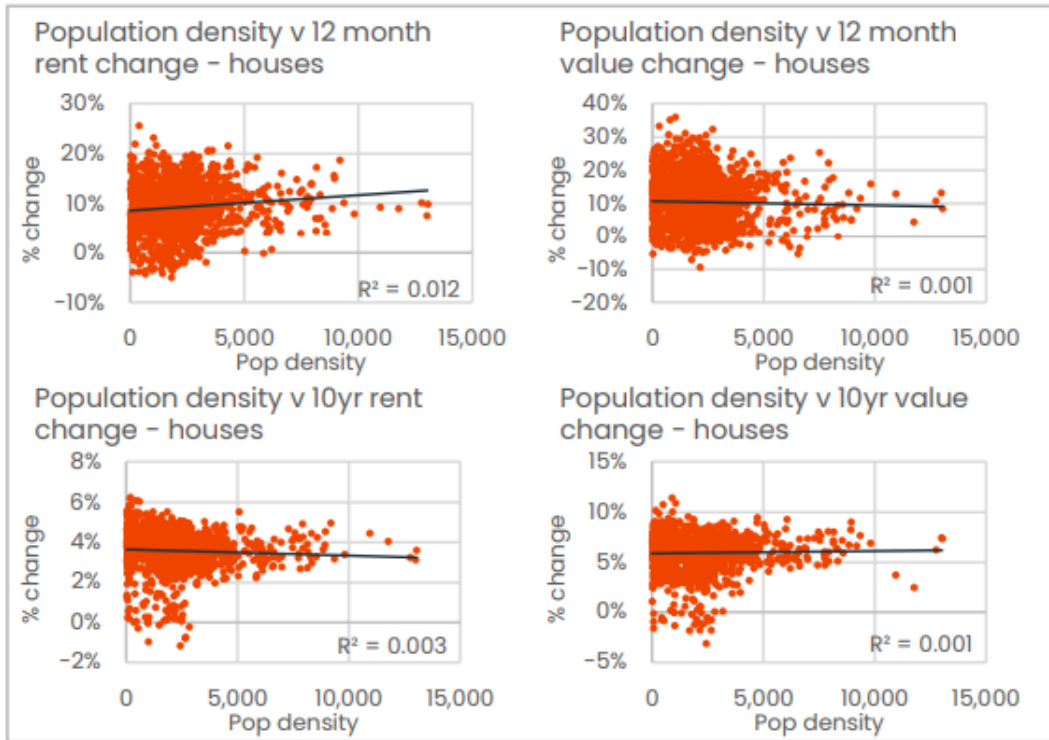
Figure 4: Population density trends – units



The relationship between density and appreciation in house rents is even weaker than seen across the unit sector, but the weak relationship runs opposite to that of units, where higher population densities have been

associated with slightly weaker rental appreciation than areas with a lower population density over the past 12 months and slightly stronger over the past decade.

Figure 5: Population density trends – houses



Of the 20 highest density SA2 locations nationally, only two recorded a larger rise in unit rents over the past 12 months than the capital city benchmark. Both were in Sydney: Chippendale (+9.4%) and Hurstville-Central (+11.7%).

Figure 6: Change in rents and values (unit markets within the top 20 highest population density SA2s)

SA2 Name	City	Population density	Median value	Change in rents		Change in values	
				Annual 10yrs	Past 12 months	Annual over 10yrs	Past 12 months
Melbourne CBD - North	Melbourne	38,401.0	\$451,058	3.7%	2.7%	-0.4%	4.3%
Southbank - East	Melbourne	23,318.4	\$601,658	2.9%	4.9%	0.8%	2.9%
Sydney (South) - Haymarket	Sydney	20,955.6	\$1,107,889	4.0%	9.0%	2.9%	0.8%
Chippendale	Sydney	19,995.7	\$823,243	4.8%	9.4%	1.6%	8.9%
Melbourne CBD - West	Melbourne	19,925.4	\$448,958	3.7%	3.9%	-0.4%	7.6%
Wolli Creek	Sydney	17,471.7	\$789,644	4.4%	8.1%	2.5%	4.7%
Zetland	Sydney	17,358.0	\$1,025,993	5.1%	8.4%	2.8%	4.8%
Ultimo	Sydney	16,671.4	\$746,784	3.6%	4.9%	3.3%	5.4%
Waterloo	Sydney	15,743.0	\$980,300	4.6%	7.6%	3.1%	8.8%
Melbourne CBD - East	Melbourne	15,471.3	\$513,402	3.2%	5.3%	0.5%	1.0%
Pyrmont	Sydney	14,770.4	\$1,345,444	3.1%	5.5%	4.8%	6.3%
Potts Point - Woolloomooloo	Sydney	13,033.6	\$1,116,408	3.8%	4.3%	5.5%	0.9%
Darlinghurst	Sydney	12,981.7	\$1,133,127	3.4%	5.5%	4.1%	7.1%
Surry Hills	Sydney	12,747.6	\$975,033	3.7%	6.5%	4.2%	6.9%
Rhodes	Sydney	12,189.9	\$993,579	3.5%	9.2%	3.4%	5.5%
Carlton	Melbourne	11,753.5	\$363,302	3.7%	5.5%	-0.4%	2.7%
South Yarra - North	Melbourne	11,061.9	\$582,762	3.8%	9.3%	-0.3%	-2.2%
Hurstville - Central	Sydney	10,936.9	\$711,859	3.8%	11.7%	1.7%	7.1%
West Melbourne - Residential	Melbourne	10,578.4	\$551,101	3.4%	4.0%	0.8%	5.8%
Newtown (NSW)	Sydney	9,802.6	\$838,744	4.2%	6.0%	3.5%	9.2%
Greater Sydney	Sydney	440.7	\$839,344	3.6%	9.4%	3.8%	6.9%
Greater Melbourne	Melbourne	521.1	\$612,906	3.7%	9.4%	2.4%	3.0%

Source: CoreLogic, ABS

The relationship between unit values and population density is more significant, with high density unit markets generally showing a lower level of value growth over both the past 12 months, and past 10 years – although the longer-term relationship is more significant, potentially reflecting periods of higher unit supply that weighed on value appreciation.

Sixteen of the top 20 have recorded a lower annual rate of unit value growth over the past decade relative to the broader capital city trend. Over the past 12 months, nine of the top 20 have underperformed.

On the other hand, high population densities provide virtually no explanatory power for house values with the coefficient of determination just .001 over the past 12 months and over the past decade.

Over the long term, precincts with a high population density tend to show slightly stronger growth in unit rents, but softer rates of capital appreciation across the unit sector, while for houses there is hardly any relationship between population density and trends in rental or value appreciation.

Stronger rental growth for units is unsurprising given the high level of amenity along with proximity to major employment nodes and academic facilities that is typical for high density precincts. They are likely to be popular across a broad range of cohorts including students, inner city professionals, service workers and migrants.

Softer value growth despite generally high levels of population growth and strong rental demand may be attributable to the propensity for higher levels of new housing supply in these same precincts. New supply, especially across the high rise sector, can be 'bulky' with the potential to deliver hundreds, if not thousands of new dwellings to a market in a relatively short space of time.

Tim Lawless is Executive, Research Director Asia Pacific at [CoreLogic](#). Read or download the [full report here](#). This article is general information and does not consider the circumstances of any investor.

The ultimate superannuation EOFY checklist 2024

Liam Shorte

Yet again we have only a short time left to the end of the financial year to put our SMSF or other super funds in order and ensure we are making the most of the strategies available to us. Here is a checklist of the most important issues that you should address with your advisers before the year-end.

Warning before we begin

In the rush to take advantage of new strategies, don't forget how good you may have it already. Be careful not to allow your accountant, administrator or financial planner to reset any pension that has been grandfathered under the pension deeming rules that came in on 1 January 2015 without updated advice on the future consequences of losing the grandfathering. Point them to this [document](#).

1. It's all about timing

If you are making a contribution, the funds must hit the super fund's bank account by the close of business on 30 June. Some clearing houses hold on to money before presenting them to the super fund.

In addition, pension payments must leave the account by the close of business unless paid by cheque in which case the cheques must be presented within a few days of the EOFY. There must have been sufficient funds in the bank account to support the payment of the cheques on 30 June, but a cheque should be your very last-minute option!

Get your payments in by Friday 24 June or earlier to be sure (yes I'm Irish), as the 30th is a Sunday this year. This is even more important if using a clearing house for contributions.

2. Review your Concessional Contributions (CC) options

Maximise contributions up to CC cap of \$27,500 but do not exceed your limit unless you have Unused Carried Forward Concessional limits and Total Super Balance under \$500,000 as of last 1 July 2023. Guidance on how to check your Unused Carried Forward Concessional limits via MyGov records available [here](#).

Some of the sting has been taken out of excess contributions tax but you don't need the additional paperwork to sort out the problem. Check employer contributions on normal pay and bonuses, salary sacrifice and premiums for insurance in super as they may all be included in the limit.

From 1 July 2024, the CC cap rises to \$30,000 per year and the Super Guarantee rises to 11.5%. Re-evaluate your contribution plans for 2024-25. You'll need to use the new rate to calculate how much of your new indexed CC cap of \$30,000 will be available to salary sacrifice or make personal deductible contributions.

3. Consider using the 'Unused Carry Forward Concessional Contribution' limits

Broadly, the carry forward rule allows individuals to make additional CC in a financial year by utilising [unused CC cap amounts](#) from up to five previous financial years. Eligibility requires a total superannuation balance just before the start of that financial year of less than \$500,000 (across all your super accounts).

This measure applies from 2018-19 so effectively, this means an individual can make up to \$130,000 of CCs in a single financial year just by utilising unapplied unused CC caps since 1 July 2018 (\$25,000 x 3 + \$27,500 x 2). **This is the last year to use any 2018-19 unused CCs as they fall outside the 5-year window from 30 June 2024.**

Beware that once your income (including salary, investment income, employer SGC, and personal concessional contributions) goes over \$250,000 you will be subject to [Div 293 Tax](#).

4. Review plans for Non-Concessional Contributions (NCC) options

NCCs are an opportunity to move investments into super and out of personal, company or trust names.

Even up spouse balances and maximise super in pension phase [up to age 75](#). Couples where one spouse has exhausted their transfer balance cap and has excess amounts in accumulation are able to withdraw and re-contribute to the other spouse who has transfer balance cap space available to commence a retirement phase income stream. This can increase the tax efficiency of the couple's retirement assets as more of their savings are in the tax-free pension phase environment.

Make your tax components more tax free by using re-contribution strategies. SMSF members can cash out their existing super and re-contribute (subject to their contribution caps) them back into the fund to help reduce tax payable from any super death benefits left to non-tax dependants. From 1 July 2022 you can do this until they turn age 75 (contribution to be made within 28 days after the end of the month you turn 75).

From 1 July 2024 the NCC Cap rises to \$120,000 per year or \$360,000 under the 3-year Bring Forward Rule. Re-evaluate your contribution plans for 2024-25.

5. Downsizer contributions

If you have sold your home in the last year and you are over 55, consider eligibility for [downsizer contributions](#) of up to \$300,000 for each member. It allows individuals to make a one-off, post-tax contribution to their superannuation of up to \$300,000 per person from the proceeds of selling their home. These contributions do not count towards non-concessional contribution caps.

The \$300,000 downsizer limit (or \$600,000 for a couple) and the \$330,000 bring forward NCC cap allow a single person to contribute up to \$630,000 (or \$1,260,000 for a couple) in one year subject to their contributions caps. **From 1 July 2024**, this rises to \$660,000 for a single person and \$1,320,000 for a couple subject to their contributions caps.

*Please be careful as this is a **once only strategy** and if you would benefit more in later years using the strategy, then maximise NCCs first.*

6. Calculate co-contributions

Check your eligibility for the co-contribution, it's a good way to boost your super. The amounts differ based on your income and personal super contributions, so use the [super co-contribution calculator](#).

7. Examine spouse contributions

If your spouse has assessable income plus reportable fringe benefits totalling less than \$37,000 for the full \$540 tax offset or up to \$40,000 for a partial offset, then consider making a spouse contribution. Check out the ATO guidance [here](#).

You can implement this strategy up to age 75 as a Spouse Contribution is treated as a NCC in their account (and therefore counted towards your spouse's NCC cap).

Consider splitting contributions with your spouse, especially if:

- your family has one main income earner with a substantially higher balance or
- if there is an age difference where you can get funds into pension phase earlier or
- if you can improve your eligibility for concession cards or age pension by retaining funds in superannuation in the younger spouse's name.

This is a simple no-cost strategy I recommend for everyone [here](#). Remember, any spouse contribution is counted towards your spouse's NCC cap.

8. Give notice of intent to claim a deduction for contributions

If you are planning to claim a tax deduction for personal concessional contributions, you must have a valid ['notice of intent to claim or vary a deduction' \(NAT 71121\)](#).

A notice must be made before you commence the pension. Many people like to start their pension in June and avoid having to take a minimum pension in that financial year but make sure you have claimed your tax deduction first. The same notice requirement applies if you plan to take a lump sum withdrawal from your fund.

9. Act early on off-market share transfers

If you want to move any personal shareholdings into super (as a contribution) you should act early. The contract is only valid once the broker receives a fully valid transfer form so timing in June is critical. There are likely to be brokerage costs involved.

10. Review options on pension payments

The government reverted to **normal rates from 1 July 2023** (following covid-related reductions). Ensure you take the minimum pension based on your age-based rate. If a pension member has already taken pension payments of equal to or greater than the minimum amount, they are not required to take any further pension payments before 30 June 2024. For transition to retirement pensions, ensure you have not taken more than 10% of your opening account balance this financial year.

Age at 1 July	2023-24 Back to Standard Minimum % withdrawal
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or older	14%

If a pension member has already taken a minimum pension for the year, they cannot change the payment, but they can get organised for 2024-25. So, no, you can't sneak a payment back into the SMSF bank account!

If you still need pension payments for living expenses but have already taken the minimum then it may be a good strategy for amounts above the minimum to be withdrawn as either:

- a partial lump commutation sum, creating a debit against the pension members transfer balance account (TBA). Please discuss this with your accountant and adviser asap as some funds will have to report this quarterly and others on an annual basis.
- for those with both pension and accumulation accounts, a lump sum from the accumulation account to preserve as much in tax exempt pension phase as possible.

11. Check your documents on reversionary pensions

A reversionary pension to your spouse will provide them with up to 12 months to get their financial affairs organised before making a final decision on how to manage your death benefit.

You should review your pension documentation and check if you have nominated a reversionary pension in the context of your family situation. This is especially important with blended families and children from previous marriages that may contest your current spouse's rights to your assets. Also consider reversionary pensions for dependent disabled children.

The reversionary pension has become more important with the application of the \$1.6-1.9 million Transfer Balance Cap (TBC) limit to pension phase from 1 July 2023.

Tip: If you have opted for a nomination instead then check the existing Binding Death Benefit Nominations (many expire after 3 years) and look to upgrade to a Non-Lapsing Binding Death Benefit Nomination. Check your Deed allows for this first.

12. Review Capital Gains Tax on each investment

Review any capital gains made during the year and over the term you have held the asset and consider disposing of investments with unrealised losses to offset the gains made. If in pension phase, then consider triggering some capital gains regularly to avoid building up an unrealised gain that may be at risk to legislation changes.

13. Collate records of all asset movements and decisions

Ensure all the fund's activities have been appropriately documented with minutes, and that all copies of all statements, valuations and schedules are on file for your accountant, administrator, and auditor.

The ATO has beefed up its requirements for what needs to be detailed in the SMSF Investment Strategy so review your investment strategy and ensure all investments have been made in accordance with it and the SMSF Trust Deed, including insurances for members. See my article on this subject [here](#).

14. Arrange market valuations

Regulations require assets to be valued at market value each year, including property and collectibles. For more information refer to ATO's publication [Valuation guidelines for SMSFs](#). On collectibles, play by the rules that came into place on 1 July 2016 or remove collectibles from your SMSF.

Tip: The ATO is targeting audit compliance this year on [Property Valuations in SMSFs](#) as we approach the implementation of the [Division 296 Tax from 1 July 2025](#).

15. Check the ownership of all investments

Make sure the assets of the fund are held in the name of the trustees (including a corporate trustee) on behalf of the fund. Check carefully any online accounts and ensure all SMSF assets are separate from your other assets.

We recommend a corporate trustee to all clients. This might be a good time to change, as explained in this article on [Why SMSFs should have a corporate trustee](#).

16. Review estate planning and loss of mental capacity strategies

Review any Binding Death Benefit Nominations (BDBNs) to ensure they are valid and check the wording matches that required by the Trust Deed. Ensure it still accords with your wishes.

Also ensure you have appropriate Enduring Powers of Attorney (EPOAs) in place to allow someone to step into your place as trustee in the event of illness, mental incapacity or death.

Check your Trust Deed and the details of the rules. For example, did you know you cannot leave money to stepchildren via a BDBN if their birthparent has pre-deceased you?

17. Review any SMSF loan arrangements

Have you provided special terms (low or no interest rates, capitalisation of interest etc) on a related party loan? Review your loan agreement and see if you need to amend your loan.

Have you made all the payments on your internal or third-party loans, have you looked at options on prepaying interest or fixing the rates while low? Have you made sure all payments in regards to Limited Recourse Borrowing Arrangements (LRBAs) for the year were made through the SMSF trustee? If you bought a property using borrowing, has the Holding Trust been stamped by your state's Office of State Revenue?

18. Ensure SuperStream obligations are met

For super funds that receive employer contributions, the ATO has introduced SuperStream, a system whereby super contributions data is made electronically. All funds should be able to receive contributions electronically

and you should obtain an Electronic Service Address (ESA) to receive contribution information. If you change jobs your new employers may ask SMSF members for their ESA, ABN and bank account details.

19. Ensure you are meeting your Quarterly TBAR (transfer balance account report) deadlines

All SMSFs are required to report events that affect a member's transfer balance account within 28 days after the end of the quarter in which the event occurs, even if the member's total super balance is less than \$1 million.

Example: All unreported events that occurred between 1 April and 30 June 2024 must be reported by 28 October 2024. This means you cannot report at the same time as your SMSF annual return (SAR) for the 2023-24 income year. More info [here](#).

20. ASIC fee increases

The Government is adopting a 'user pays' model so expect increases to accelerate in future years. ASIC's current [annual review fee](#) of a special purpose SMSF trustee company is \$63. For \$436 you can pre-pay the company fees for 10 years and lock in current prices with a decent discount. There is a remittance form [linked here](#).

21. Home Equity Access Scheme (HEAS)

[The Home Equity Access Scheme](#) formerly called The Pension Loan Scheme, lets older Australians who are Age Pension age or older get a voluntary non-taxable loan from the Government.

- No negative equity guarantee - Borrowers under the HEAS, or their estate, will not owe more than the market value of the property secured against the loan, minus any other mortgages or legitimate encumbrances.
- Immediate access to lump sums under the HEAS - Eligible people will be able to access up to two lump sum advances in any 12-month period, up to a total value of 50% of the maximum annual rate of Age Pension (currently \$14,511.90 for singles and \$21,876.40 for couples).

22. Careful if replacing Income Protection or TPD Insurance (Total Permanent Disability)

Have you reviewed your insurances inside and outside of super? Don't forget to check your current TPD policies owned by the fund with an own occupation definition as the rules changed a few years ago so be careful about replacing an existing policy as you may not be able to obtain this same cover inside super again.

There were major changes to Income Protection insurance in 2021 so be very careful about switching insurer unless costs have blown out as new cover is often vastly inferior to current covers. Read more [here](#) before switching cover.

23. Large one-off personal income or gain – Bring forward Concessional Contributions

For those who may have a large taxable income this year (large bonus or property sale) and are expecting a lower taxable next year you should consider a contribution allocation strategy to maximise deductions for the current financial year. This strategy is also known as a "Contributions Reserving" strategy, but the ATO are not fans of Reserves so best to avoid that wording! Just call it an Allocated Contributions Holding Account. See my article on this strategy [here](#).

24. Providing proof of cryptocurrency holdings as of 30 June

You should be using an exchange that is set up for SMSF accounts. They should provide a Tax Summary but it may cost extra. Independent Reserve provides one audited by KPMG for \$50. COINSPOT also offer tax reports that meet Australian Audit requirements.

The auditor will also want to verify holdings by checking:

- An exchange account is set up in the name of the fund
- Wallet purchased using funds from the SMSFs cash account

Cold Wallet audit management extra step: For annual audit purposes, take a screenshot of the assets held in your Ledger wallet (e.g. via the Ledger 'Live' App or similar) on 30 June and also on the day you submit your paperwork and email this to the tax agent at tax time.

Liam Shorte is a specialist SMSF adviser and Director of [SONAS Wealth](#). He is also a Director of the SMSF Association and he writes under the social media identity of 'The SMSF Coach'. This article contains general information only and does not address the circumstances of any individual. It is based on an understanding of relevant legislation and rules at the time of writing, which may change.

The outlook for Nvidia, from a long-time investor

Alex Pollak

Nvidia is now the third largest company in the world. It is larger than Tesla, Meta, Alphabet, Amazon and Saudi oil giant Aramco. Despite this scale, the company grew quarterly revenue at +265% year on year as reported in its latest earnings call. The data-centre segment grew an astonishing +409% year on year. Even as we become strangely accustomed to Nvidia's beats and raises, this kind of growth should in no way be perceived as anything even remotely resembling normal in the stock market.

Its size and speed, for a company this large, has not been seen in recent history.

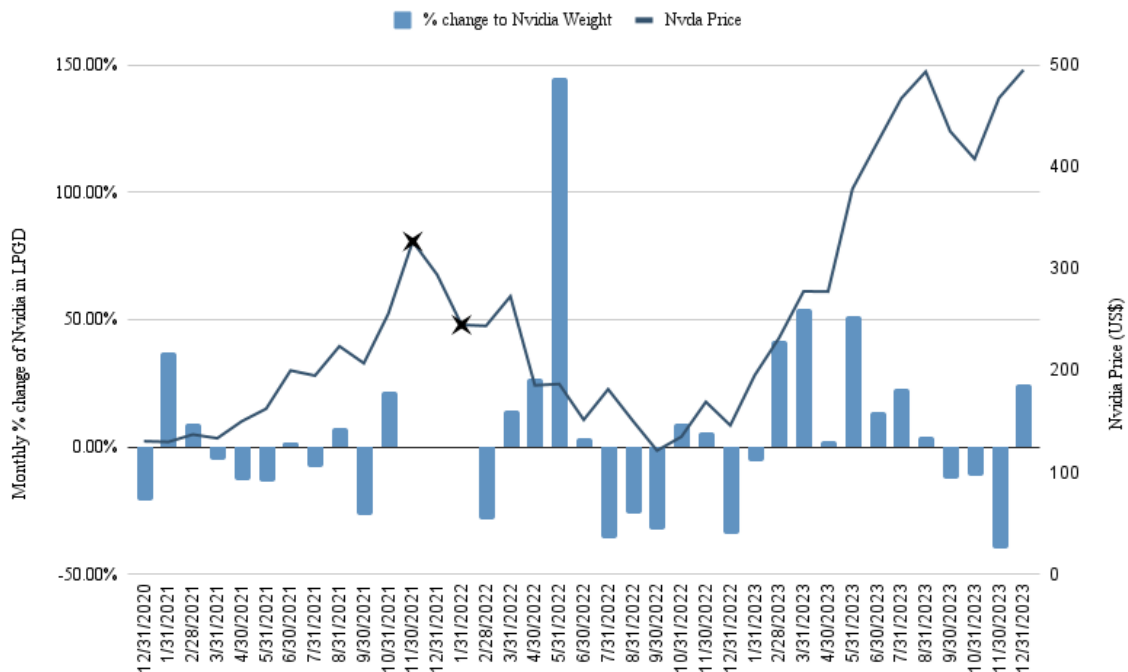
Our history with Nvidia

Nvidia has featured in portfolios managed by Loftus Peak since the beginning of 2016. Back then, the share price was around US\$8 (after adjusting for the company's stock splits).

At the end of 2016, Nvidia's data centre business had grown just +145% (!) year on year and accounted for 12% of total revenue (gaming was 60%). Nvidia was the graphics processing unit (GPU) specialist and it disrupted, in a way, the incumbent central processing unit (the CPU). By processing independent calculations in parallel, Nvidia offered a far more efficient hardware solution for dealing with large calculations.

We held Nvidia as the company grew, powered by the cyclical gaming business and the secular data-centre business, of which Artificial Intelligence (AI) was a driver. We believed the company could grow revenues a little bit faster than 20% p.a. across the next five years. This was the basis of our investment between 2016 to 2022.

Figure 1: Using these assumptions, Nvidia featured in the portfolios we manage



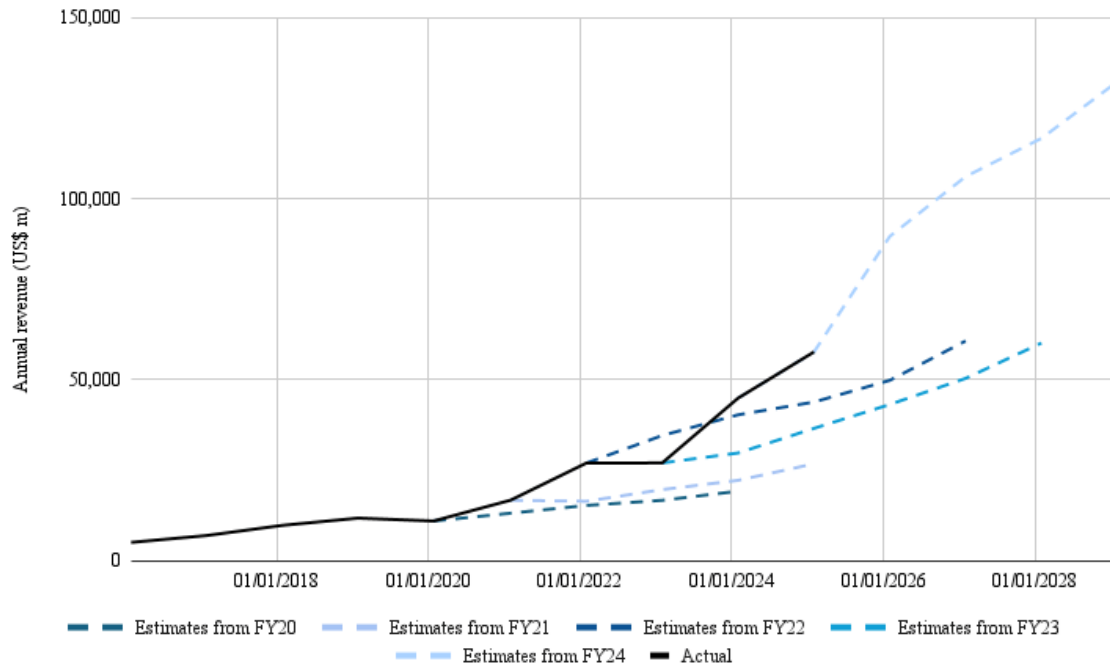
Source: Loftus Peak

Nvidia went through our price target in late 2021 and we exited all together, up around 10x on initial entry price. The 2022 sell-off brought the company back into an investable range.

Then AI came along...

The nature of Nvidia's disruptive edge has not changed since 2016. However, the demand for its cloud compute has exploded due to AI and Large Language Model workloads. This is the fundamental driver of the company's incredible growth.

Figure 2: We understood the potential, but we did not expect the pace of growth



Source: BBG, note that the Nvidia financial year is eleven months ahead of the calendar year.

The translation of AI demand into Nvidia revenue became clear to us from February 2023. We increased our growth assumptions, our price target climbed and we lifted the company's weight in the portfolios managed by Loftus Peak. After falling -50% in 2022, the stock grew +239% in 2023, and has approximately doubled in the 2024 year to date.

What comes next?

Commentators flit between euphoria and scepticism. To confuse matters further, projected earnings upgrades make the company appear as one of the cheaper semiconductor names on a forward P/E basis. Some cynics have acquiesced. This capitulation combined with the capex numbers from customers like Meta and Microsoft have fuelled Nvidia's share price.

But for the Fund, investing in AI, in a risk-controlled way, requires some level of diversification.

This is because within Nvidia's enormous growth numbers are the seeds of a downward move in the valuation. Nvidia is forecast to generate sales of around US\$105 billion by the end of 2024 and US\$127 billion by the end of 2025 – but this last figure implies a reduction in the growth rate from 100% to just 20%! Investing in AI therefore is very different to using AI.

This is the reason that the Fund holding in Nvidia has been cut by around half over the past 6 months. It is not because of scepticism on the AI roll-out, but because the share price as it stands better reflects the shape of that roll-out to come, and so is now less attractive.

Just to be clear, there is more value to be had from investing in AI. The hardware build we have seen should be viewed as a prelude to a usage and device boom which has yet to be captured, in a return sense, from other major players including Qualcomm, AMD, Apple and Alphabet among others.

But reducing the exposure to companies such as Nvidia provides more room to invest in other companies that we believe are more prospective and not so richly valued, and on which future returns will be earned.

Alex Pollak is Chief Investment Officer and Co-Founder of [Loftus Peak](#). This article is for general information only and does not consider the circumstances of any individual. Loftus Peak Global Disruption Fund ([ASX:LPGD](#)) is available to investors on the ASX as an active Exchange Traded Managed Fund.

Gross National Happiness?

Shane Oliver

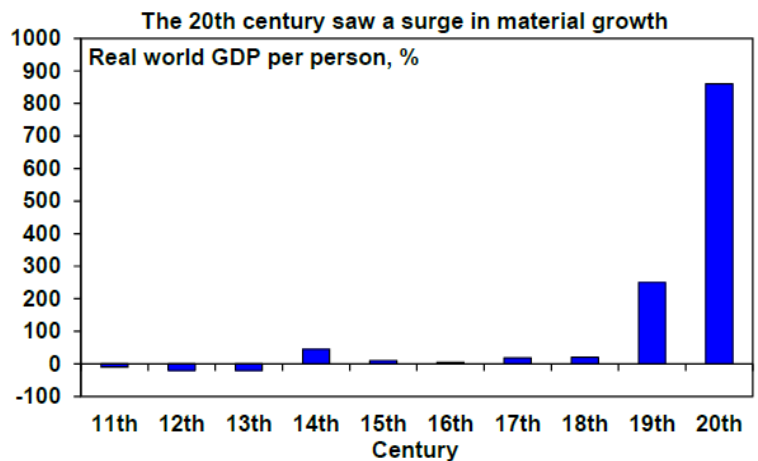
On a recent road trip, I was listening to a bunch of Taylor Swift and Andy Williams' CDs and what struck me was how different the topics of the songs were. Andy's covers were far more upbeat (with songs like 'Happy Heart' and 'For All We Know') whereas Taylor has lots of 'somebody done me wrong' songs. Of course, it's dangerous to generalise but then I saw a study from the University of Innsbruck finding that songs have become "gloomier" and "angrier" compared to 50 years ago - which made me think about what it tells us about the wider concept of happiness.

Pursuing happiness is at the centre of our existence. There's lots of evidence happiness is good for us – happy people live longer, are healthier, more resilient, more creative, are better leaders and are more sociable. Which is where economics comes in. Despite often being portrayed as the 'dismal science', economics is in fact all about happiness. The economic problem is about how to maximise utility (or happiness) with limited resources. So, economics can be thought of as the 'art of happiness'. But measures of happiness have been flat or falling in developed countries. So, what gives? Is economics failing us? This became a big issue in the 2000s with lots of books on happiness. There is now even a regular 'World Happiness Report' using Gallup surveys attempting to gauge happiness.

Rampant prosperity

The 19th century saw the start of rapid global economic growth.

This really took off in the 20th century as technological innovations such as electricity, the internal combustion engine and silicon chips came together to rapidly boost productivity. Consequently, real income or Gross Domestic Product (GDP) per person surged globally. This in turn led to a massive rise in material prosperity with, eg: large climate-controlled homes; high speed affordable travel; high quality and variety of food; a huge array of goods; a massive increase in lifespan, and instant communication and entertainment.



Source: Angus Maddison, AMP

But stagnant happiness in recent decades

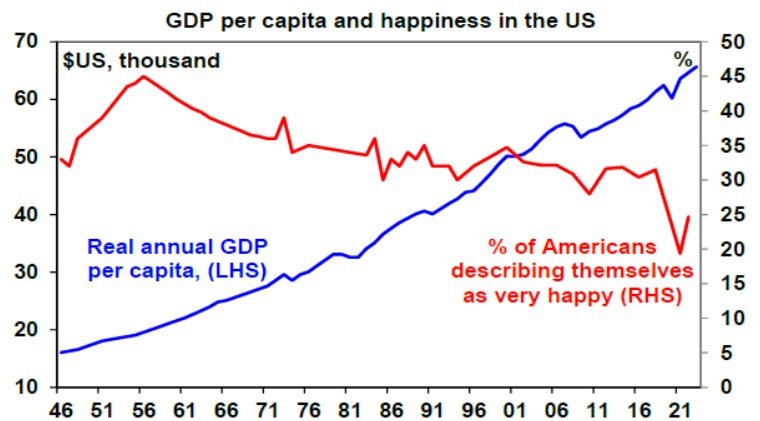
Despite the huge surge in material prosperity there is little evidence that happiness levels in developed countries have improved in the last fifty years. This is illustrated in the chart below for the US which shows the percentage of people who say they are “very happy”, versus real GDP per person. As income has gone up over the last 50 years, happiness has fallen.

It’s a similar picture for Australia, although we only have Australian happiness data (from the World Happiness Report) for the last 20 years.

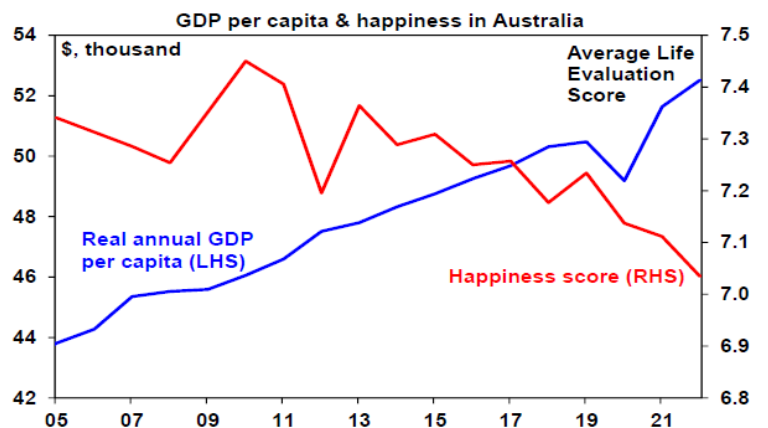
Stagnant or falling happiness is confirmed by rising trends in crime rates, depression diagnoses, suicide rates & drug abuse. This doesn’t mean there is no link between income and happiness. The next chart compares income levels and happiness across countries. At low levels of income, extra income can have a big positive impact on happiness. But for countries beyond a certain level (around \$US50,000), extra income has little impact.

This is not to say that happiness is not high in rich countries. In fact, according to the World Happiness Report for 2024 Finland ranks #1 as the happiest and Australia ranks #10 with the US at #23. Lebanon and Afghanistan rank at the bottom at #142 and #143. It’s just that in rich countries variations in income across countries have little impact on happiness. Other findings from the happiness studies are as follows:

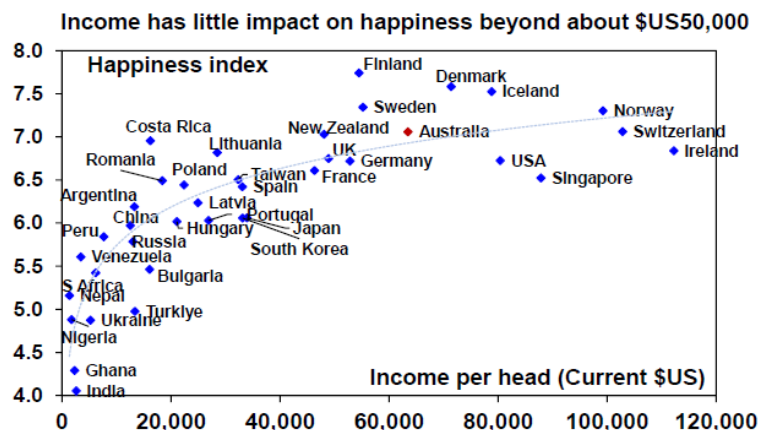
- Rich people are happier than poor people. This does not mean that society as a whole becomes happier as aggregate income for everyone rises. This has become known as the Easterlin paradox.
- People compare themselves to others (keeping up with the Joneses) in determining their happiness so if average incomes rise, they may feel no happier, which may explain the Easterlin paradox.
- Women tend to report higher life satisfaction than men, but also experience more negative emotions, suggesting they are less happy.
- Married men are happier than unmarried men, but it’s less clear for women with some studies showing the opposite.
- Younger people in the US, Canada, Australia and NZ are the least happy age group. This is a major change from 20 years ago and may be due to the rise of social media giving rise to increased anxiety and depression amongst the young, particularly young girls. Poor housing affordability may also be impacting.
- Progressives are sadder than conservatives – possibly because they are more empathetic and focused on a more negative world view.



Source: US General Social Survey, IMF, AMP



Source: World Happiness Report, ABS, AMP



Source: World Happiness Report 2024, IMF, AMP

- Physical & outdoor leisure, shopping, reading books, seeing relatives, listening to music and attending sporting and cultural events are associated with higher happiness. Time on the internet and TV is not.
- People in individualistic societies are happier and freedom to make life choices contributes to happiness.
- People adapt to their situation with evidence we are born with a genetically pre-set level of happiness to which we return to after good events (like winning the lottery) and bad (like having an accident).

Some have claimed that most people are on an “hedonic treadmill” of working ever harder to attain material wealth in the belief this will make them happier only to find it doesn’t but resolving to work even harder.

From GDP to Gross National Happiness?

Many argue these findings present a challenge for economists. Economics is about maximising ‘utility’, or happiness. But since happiness is hard to measure, economists assume a good proxy is income and consumption. If consumption is positively correlated with happiness, then policies to boost economic growth will boost happiness. But, if not, this may be misplaced. There are two schools of thought in relation to all of this. The first is to argue economic policy needs to be refocused on broader measures of wellbeing such as Gross National Happiness. The second argues that it is up to the individual to learn how to become happy. The first approach would mean a radical change in economic policy with proposals to boost happiness like these: tax excessive work (as it doesn’t lead to happiness); re-distribute income (because inequality leads to envy and keeps people on the ‘hedonic treadmill’); reduce the focus on competition and rivalry; spend more money on public goods such as parks; refocus on community; limit advertising to information to avoid creating demand for stuff we don’t need; and switch to focusing on Gross National Happiness.

This would have big implications for investors, as these policies would lead to slower profit growth and lower returns from growth assets.

Legislating for happiness makes little sense

However, there are good reasons to be sceptical of proposals for government policy to target happiness:

Firstly, happiness is very hard to measure, making some of the findings referred to above questionable, and impossible to define objectively. Nationally determined concepts of happiness, such as Bhutan’s Gross National Happiness concept, depend critically on subjective judgements that governments (or ethnic or religious majorities) may define to suit them. This can be used to justify religious or ethnic persecution and can be used to advance authoritarian aims.

Secondly, just because we get used to something doesn’t mean we should stop doing it. Rising material wealth may not permanently boost happiness beyond a certain level because we adapt to it. It would have been expected that the huge increase in healthy lifespans or the increase in measured leisure time would have boosted happiness, but it hasn’t. That does not mean we should cut back on health spending or reduce leisure. Policies to increase happiness by cutting work effort or income by redirecting people to other activities may flounder as those activities have the same problems as money, ie, people just get used to them.

Thirdly, while material progress may not be boosting happiness it is doubtful stagnation will either. Curiosity and the desire to advance are fundamental to humanity. Introducing policies to reduce work effort may reduce happiness by suppressing a sense of achievement. Oppression of individual advancement may explain low happiness in socialist countries.

Fourth, restricting choice in favour of officially mandated happiness guidelines may actually reduce happiness as evidence suggests that freedom to make life choices contributes to happiness.

Finally, we are partly dealing here with the outworking of success. The rise in affluence has given people in rich countries the time and money to search for happiness. It should also be recognised that the problems with social media and the decline in happiness it may be contributing to is also a problem of the economic success that gave rise to the technology, wealth and time that facilitate their use. Finding better ways to live with the success that has given rise to social media – a bit like the rules we set around driving cars – is arguably better than threatening to reverse it.

This is not to say that governments should not attempt to measure and boost wider measures of social welfare beyond GDP. But there is a danger in trying to legislate for happiness. There is nothing new in the concept that material wealth won’t lead to lasting happiness. Most religions have long been pointing it out. Buddha long ago observed that most human suffering comes from desire, and this has to be brought under control to achieve

happiness. But seeking happiness and enlightenment is up to individuals, not the state. Maybe Thomas Jefferson was on to something when he wrote in the US Declaration of Independence that all people had the right to “Life, Liberty and the Pursuit of Happiness” with the implication that happiness is something we can only pursue.

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.

The power of dividends

Eric Marais

A business is worth the cash an owner can get from it, and there are two ways to get that cash: through the mail or through a sale. Collect a dividend payment, or sell the ownership or assets of the company.

Over the life cycle of a business, investors who might someday sell its stock must guess what others might pay for it. An early investor might dream of the company’s addressable market, but they must look to the second investor, who may speculate about its sales. The second investor must think of the third, who may predict its path to profits. And that investor must consider the next one, who may estimate earnings or forecast free cash flow.

We love looking at free cash flow. Yet cash does little good if it is stashed or squandered, and if you don’t control the business, you can’t sell it outright, you can’t sell its assets, and you can’t set its payout policy.

But if you owned the whole thing, you could always demand dividends.

It is the perspective of this owner—no matter how hypothetical or far in the future they may be—that determines the intrinsic value of the business. No matter how many times the shares of a company change hands, its eventual potential to pay dividends is what ultimately determines its worth.

Dividends provide insights into a company

Dividends tell you something about a business. If it pays out, it is probably profitable, but looking at earnings or cash flow could tell you that. Dividends also tell you that its lenders haven’t pressed to prevent cash from leaving the building, and that its leaders care enough about minority shareholders to reward them.

So as minority shareholders, while we love looking at free cash flow, we like looking at dividends too. Historically, that’s often been a rewarding approach. In the US, Europe, and Japan, shares with high dividend yields have outperformed their wider stock markets over the very long term.

Like any lone metric, a company’s dividend is understood best if you deeply understand the business. An exceptionally high yield (dividend per share divided by share price) may presage a dividend cut—this is partly why stocks with pretty high yields have (on average) outperformed those with the very highest yields. High payouts might also tell you that a company can’t find enough attractive projects to invest in, limiting its growth.

Alternatives to dividends

Growth is a competing use for cash, and if a company can reinvest in projects with attractive returns on capital, they usually should. Companies can also repurchase their own shares—buybacks have long eclipsed dividends as the preferred way to return cash to shareholders in the US, helped by tax efficiencies.

Some buybacks are better than others, however. When a company buys their own shares at a deep discount to intrinsic value, as XPO Logistics memorably did following a shoddy short-seller attack in 2018, buybacks can create enormous value. For companies like the many in Japan trading for less than 1x book value, exchanging one dollar of cash for more than one dollar of book value mechanically boosts book value per share and almost-as-assuredly lifts returns on equity. For any company, buybacks may make sense if the return on capital already employed looks better than the return on new projects. But companies can also overpay for their own shares, and buybacks provide a tempting way for executives to hit per-share bonus targets or distract from share-based compensation to their colleagues.

Dividends are simpler, and they have much to recommend them. They tend to grow more quickly than inflation, which helps to protect real returns. Many companies treat dividends as sacrosanct, so dividends can persist through profit wobbles, and high yields are hard for investors to ignore. A stock trading at 10x earnings may drop to 5x with little fanfare, but if a stock yielding 5% halves in price, its 10% yield will attract lots of curious eyes.

Put those traits together, and shares with high yields can reduce both return and forecast risk. On the return side, high-yielding companies in the US, Japan, and Europe have historically suffered shallower drawdowns and less volatility than wider stock markets. On the forecasting side, dividends are often the most predictable part of a company's expected return. That is important, as growth forecasts for many years into the future can be off by an inch or a mile.

Dividend payers in our portfolio

Recently, we've found many compelling ideas with high dividend yields, and every portfolio of ours currently has a higher yield than its benchmark. Not that every holding pays a dividend—many don't, and for most of those we support the company's decision to reinvest instead. Some companies pay out a little but can and should pay more.

Yet over a dozen of our holdings offer dividend yields above 5%, with payouts we believe are sustainable. Some pay out cash through both dividends and buybacks, pushing their "all-in" yields to 10% or higher. These are generally mature companies that have managed to grow by at least 5% per annum over many years. Which begs a question: If you can underwrite 15% expected returns with pedestrian assumptions, why bet on predictions for 15 years in the future?

Eric Marais is an Investment Counsellor at [Orbis Investments](#), a sponsor of Firstlinks. This report contains general information only and not personal financial or investment advice. It does not take into account the specific investment objectives, financial situation or individual needs of any particular person.

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The best opportunities in fixed income right now

Jonathan Costello

Much has been made of the renewed case for fixed income in recent months and appropriately so in our view. Not enough has been said however about the case for active management.

Within fixed income markets, behavioural and structural inefficiencies exist that present opportunities for active managers to enhance returns. Various pitfalls of investing passively can also serve to increase risk, underscoring the importance of addressing these via active approaches to ensure fixed income's defensive profile delivers to the best extent possible.

We'll review the structural and behavioural factors that have proved fertile ground for active management within the Australian fixed income market and show evidence that the asset class continues to provide opportunities to harness attractive risk-adjusted returns.

Investor inefficiencies

The Efficient Market Hypothesis (EMH) is predicated upon all market participants acting rationally, with a mutual objective of maximising risk adjusted returns. In practice this does not fully hold, allowing skilled managers to capitalise on market mispricing.

Fixed income is comprised of a broad investor base with disparate objectives not always aligned with return maximisation. Behavioural biases can also influence demand and supply. These include:

Asset and liability matching: A common objective of insurance companies, investors seek specific securities with yields and duration that precisely match their liabilities, regardless of the securities true fundamental value.

Benchmark tracking: Passive investors seeking precise exposure to benchmarks will bid for securities without regard for relative value opportunities. Benchmarks can be difficult to emulate efficiently due to their size, the number of securities, and frequency of compositional change.

Economic regulation: Central banks seeking to influence liquidity and the cost of borrowing through policies such as bond buying programs, sales (quantitative easing/tightening) and yield curve control, can skew market pricing away from fundamentals.

Offshore investor influences: Offshore investors may include currency gains as a driver of investment decisions on unhedged portfolio holdings. Japanese annuity products for example include product features such as total return triggers which can result in selling pressure for bonds with strong fundamentals and attractive pricing simply due to changes in the value of a currency.

Structural inefficiencies

Structural inefficiencies of fixed income indices also promote discrepancies between the market prices of securities and their intrinsic values. Index construction and rating methodologies, as well as regulatory constraints all play a significant role in creating opportunities for active managers to identify undervalued or overvalued assets.

Debt weighted indices: Fixed income indices are weighted according to the amount of debt outstanding. Unlike equity indices that rely more heavily on market factors (like share price and number of shares issued), fixed income indices follow a debt-weighted approach without full consideration for an issuer's creditworthiness. This approach leads passive investors to favour issuers that have the largest amount of borrowing, rather than being the most valuable companies in the case of equity indices. In addition, index weightings can allow for increased exposure to issuers who have deteriorating credit quality due to increased leverage or high levels of debt issuance.

Influence of credit rating agencies: Credit agencies play a pivotal role in fixed income markets and their influence can be seen in the following instances:

- **High-yield or sub-investment grade securities:** These may be ineligible for inclusion within indices/benchmarks. Active managers can take positions in 'rising stars', sub-investment grade securities with ratings upgrade potential. Rating downgrades (from investment-grade to sub-investment grade) or upgrades, can cause significant selling or buying pressure. Active managers with the ability to conduct thorough research and include off-benchmark holdings can take advantage of the associated price volatility.
- **'Stale' ratings:** Security fundamentals can change rapidly especially in times of crisis resulting in ratings that no longer reflect the fundamentals of the security ('stale' ratings). Credit rating agencies have finite resources and cannot publish updated ratings that reflect all information in real time. Active managers have the ability to react as information becomes available, potentially ahead of ratings-guided investors and benchmarks.

Regulatory requirements: Regulations governing which securities can be held by fixed income investors, their minimum ratings, and the associated capital charges are notable. In Australia for example, securities deemed High-Quality Liquid Assets (HQLA) may be favoured by banks, which can skew market dynamics and pricing.

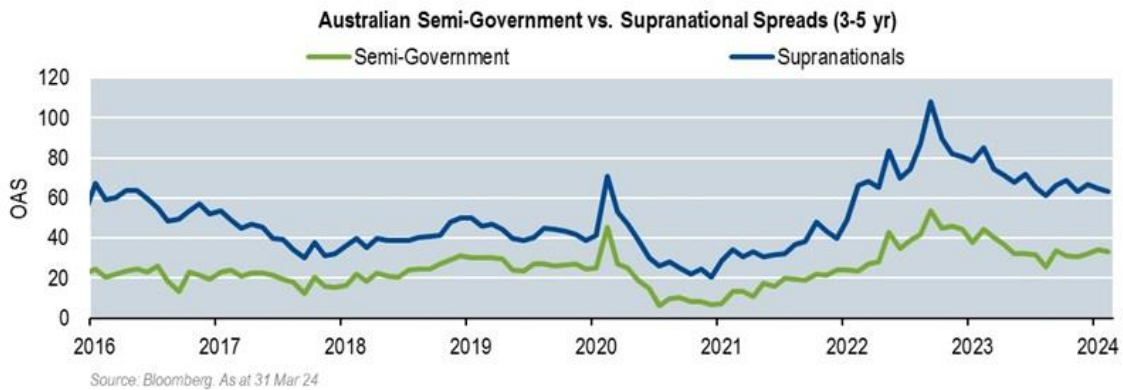
Case study – Semi-government versus supranational yields

Budget deficits associated with COVID lockdowns and fiscal stimulus have seen large amounts of semi-government bond issuance in the past few years. Deteriorating credit fundamentals and credit rating downgrades have resulted in some cases.

Since semi-government issuance has been high relative to the wider market, index construction rules result in a higher weight in the benchmark. Concurrently, regulatory changes to the securities that Australian banks are required to hold have increased demand for semi-government securities. This has arguably pushed credit spreads, or compensation for risk of these securities, lower than what true fundamentals would imply.

Conversely, supranational entities have been more conservative in their bond issuance, maintaining relatively robust fundamentals in comparison. Unlike major Australian state issuers, which typically hold an AA rating, supranationals often boast a AAA rating, indicating superior creditworthiness.

Even with those higher ratings, supranationals offer a yield premium to semi-government issues of the same term. Since COVID, demand for semi-government securities has been strong from Australian Authorised Depository Institutions (ADIs) and the RBA.



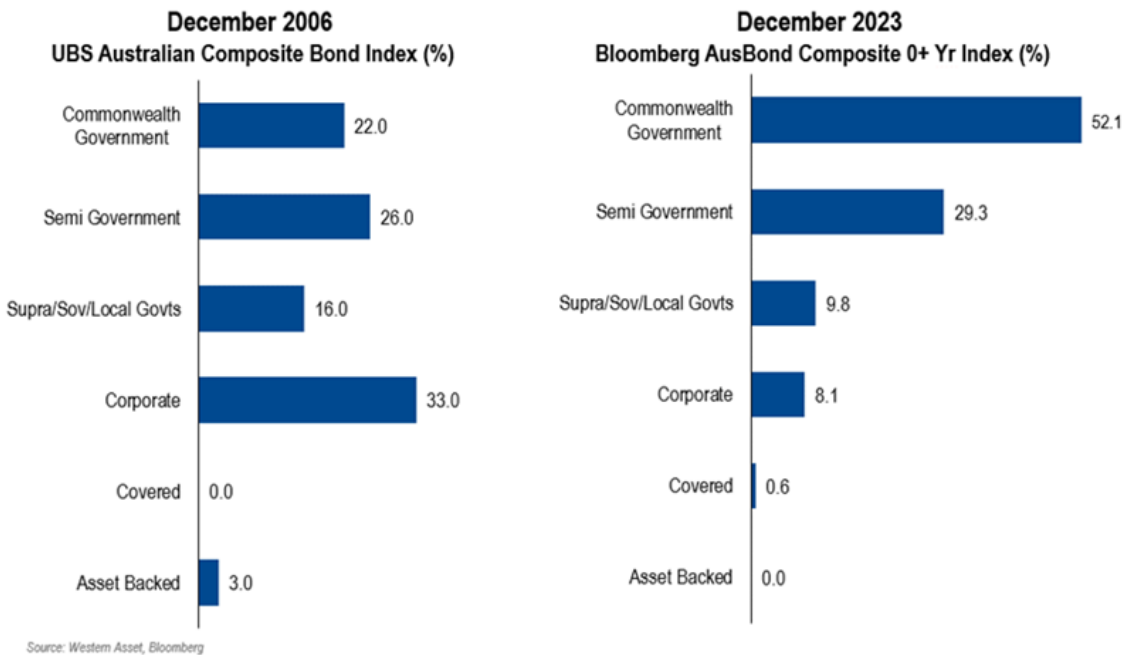
Looking forward, net issuance will remain elevated but ADIs who have sufficient holdings to satisfy regulatory requirement, as well as limited demand from the RBA, will mean a separate cohort of investors will be required to absorb additional new supply of semi-government debt to the market. Without additional investor demand, prices would be expected to fall (spreads will widen).

Active managers that can recognise technical factors are in a strong position to deliver superior risk-adjusted returns.

Australia’s changing fixed income landscape

The composition of the Australian fixed income market has changed dramatically over the past two decades. Whilst corporate debt outstanding has grown modestly, the sheer weight of government and semi-government issuance has dwarfed corporate issuance and crowded out credit in the benchmark.

A similar outcome has transpired for the supranational sector. Lower sector diversification, reduced exposure to credit and changes to the risk attributes of the index are the result.

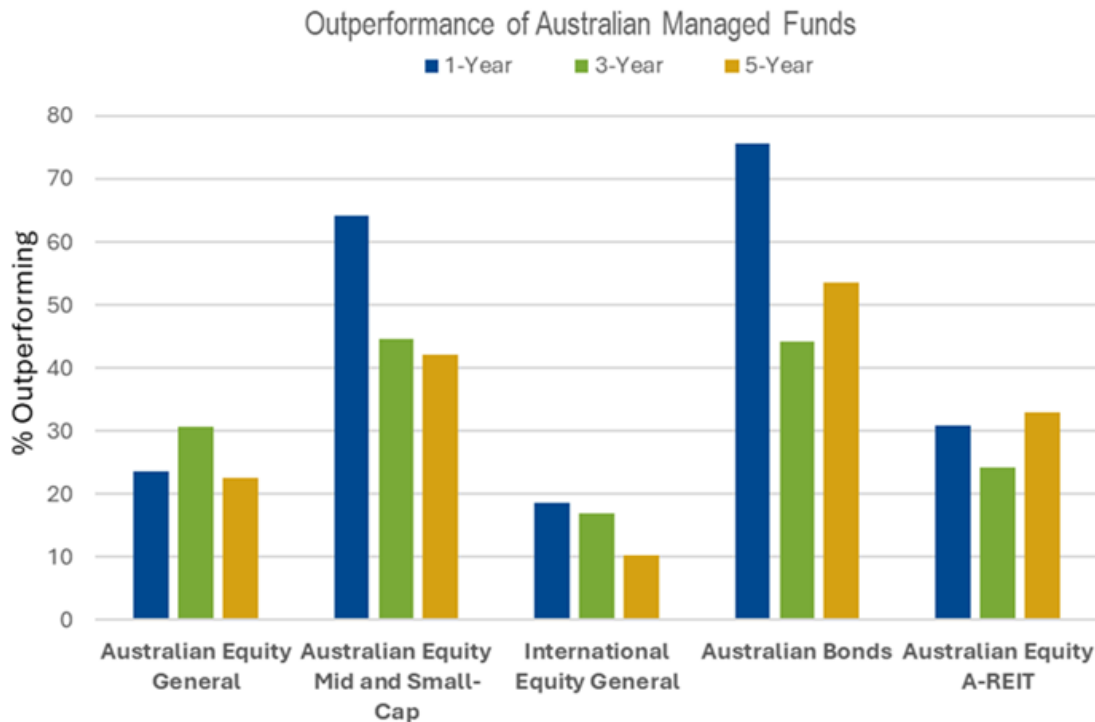


Passive investors have inherited lower corporate exposure and thus less yield buffer. In an investment grade dominated, high quality market, that additional yield buffer has proven to be a valuable tool against the negative impacts of rising rates, with a negligible increase in default risk.

Increasing weights to these high-quality corporates without significantly increasing the risk of the portfolio, nor decreasing the average quality is possible through active management. Active managers can also position appropriately to maintain the attributes that investors are seeking in a core fixed income allocation: liquidity, defensive yield, correlation benefits and portfolio diversification.

Evidence of persistent outperformance

Recent data highlights the success that active managers have had within Australian fixed income. As shown in an S&P study, active management has been rewarded more often than not, over one and five-year periods. The report underscores active management’s success within Australian fixed income when viewed against other asset classes in which most managers have underperformed their benchmarks over 1-, 3- and 5-year periods.



Source: S&P SPIVA Scorecard as at 31 December 2023, Western Asset

Summary

The resurgence of fixed income's defensive characteristics is acutely apparent. Less obvious, but no less important is the role that active management can play in navigating rapidly evolving market conditions effectively and defending against poor portfolio outcomes.

Jonathan Costello, CFA is a Client Service Executive at [Western Asset Management](#), a Franklin Templeton specialist investment manager. [Franklin Templeton](#) is a sponsor of Firstlinks. This article is for information purposes only and does not constitute investment or financial product advice. It does not consider the individual circumstances, objectives, financial situation, or needs of any individual.

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