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Editorial

Retirement planning focuses almost exclusively on matters of money - how much we need to save, how much we can spend, when we can spend it, how much we need to put aside for travel, how much we should give to our children and so on.

Less planning goes into what our day-to-day lives will be like in retirement. Many of us have a mythical view of retirement as a perpetual holiday where we'll have the freedom to do what we want, when we want to, and live out a carefree existence.

Sometimes it doesn't turn out that way. Studies show men can struggle with the transition to retirement. Without the structure provided by full-time work, they can get lost. That's because men have a habit of identifying with their jobs. If someone asks them what they do, they can proudly answer, "I am engineer" or I'm an accountant". Without work, men can lose a part of their identities.

Another issue for men is they tend to have fewer friends heading into retirement. That can lead to issues such as isolation.

It's not just men, though. Women also encounter problems in retirement.

It can be a big shift for women having their husbands at home full-time in retirement. Women are often better at building social networks and these networks remain active in retirement. If their husbands don't have the same networks, and they lean more on their wives, that can cause friction in relationships. It's maybe why some studies show that the happiest retirees are divorced women aged between 60 and 65.

To avoid these issues, how should people best prepare for life in retirement? Here are five tips, primarily drawn from the academic work of Professor Michael Finke, Professor of Wealth Management at the American College of Financial Services, and Laura Carstensen, Director at the Stanford School of Longevity:

1. Develop structures and habits

It can be an abrupt change to go from having structured days and weeks while working to having unstructured ones when retired.

Think about your weekdays when working. You might get up, go for a walk, have breakfast and coffee, then head to work, before coming home and spending time with family and having dinner and downtime.

In retirement, it can mean going from that to, well, nothing.

Having no structure can lead to perceptions of time going faster and feelings of drifting and not achieving anything.

To avoid this, it's best to develop structures and habits, and to test-drive them *before* retiring. You can do this on days off work, on weekends, or while on annual leave.

Do you want to take up golf in retirement? Don't leave it until you work your last day. Get into a routine of playing before you make the final decision to retire.

The same goes if you want to do charity work in retirement. Start doing the work before you quit your day job so you develop a routine that can easily transition into retirement.

2. Consider working in some capacity

I know this point will bring groans from some people. You may be a tradie and your body is battered from 40 years of hard labor, and you have no intention of working in retirement. Fair enough.

However, there are other people who enjoy their jobs. Maybe they want to work less in retirement though keep doing the tasks that they enjoy most in their current jobs.

Work can bring benefits such as a sense of purpose, a certain status and respect, and help with creating and maintaining social relationships.

3. Nurture your relationships

All major scientific studies say that relationships are the key to both happiness and longevity. They're the number one factor, ahead of money, health, and other things.

There are several things to consider when thinking about relationships in retirement.

First, old friendships are important to life satisfaction. And if you can live near old friends, all the better.

Second, when you reach the 80s, you're at higher risk of becoming socially isolated, especially if you live in your own home. One study from Texas Tech University found that people who lived in their own houses were happiest throughout their lives until their late 70s. Yet, once they hit their 80s, people who lived in apartments were happier than people who lived in houses because they were less at risk of becoming socially isolated.

Third, for friendships to last in retirement, you need to invest in them prior to retirement. That means reaching out to friends and meeting up with them on a regular basis. Friendships are a little like plants – without care and water, they don't last. Or as anthropologist Robin Dunbar puts it:

"*If you don't meet up once in a while face-to-face, nothing on the face of earth or Facebook is going to stop that friendship gradually becoming an acquaintanceship.***"**

4. Maintain your health and fitness, and start early

Retirement health plans can be like New Year's Eve plans: good intentions that go nowhere.

Say your goal is to pick up hiking in retirement. A noble goal. However, if you haven't kept in shape, you may not be fit enough to achieve the goal. Therefore, it's vital to start things such as hiking in your 50s or earlier so you can continue them or do more of them when you retire.

If you can do that, it can be worth it as health, like relationships, is a key factor to both happiness and longevity.

5. Pick an age at which we will transition from our home to a different type of living environment.

This is a suggestion from Professor Michael Finke and I'm not sure I agree with it. Finke reasons that cognitive and physical decline are inevitable as we age. We are different people at the latter stages of retirement compared to when we are in the early stages. We're more vulnerable.

Consequently, he thinks it's a good idea for us to pick an age when we'll transition from home to a different type of living environment. It's better than our kids forcing us into a facility that we may not want to go to. Instead, this way, we can choose where we want to go and when and can plan for the transition and the costs involved.

I have parents aged 86 and 79, who are becoming more vulnerable, both physically and mentally. In some ways, I wish they did move into a retirement village several years ago. Though I can understand why they haven't.

There’s no easy answer to this one.

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My article this week explores how building wealth often requires bold moves and risk, but keeping it demands careful planning and diversification. I outline the key strategies for getting rich versus staying rich.

James Gruber

Also in this week's edition...

Dividend investing offers appeal through income and franking credits, but is it right for everyone? **Geoff Warren** looks into when it works, when it doesn’t, and what investors often overlook.

What is Trump's endgame? It has everyone scratching their heads, though **Clime's John Abernthy** thinks US Treasury Secretary Scott Bessent has given some large hints, and they involve dealing with America's out-of-control debt load and potentially reintroducing a forgotten tool in order to keep bond yields down.

Fascinating initial studies suggest that while we age continuously in years, our bodies age, not at a uniform rate, but in spurts at around ages 44 and 60, as **Don Ezra** reports.

Meanwhile, has Trump killed the global move to net zero carbon emissions? **James Tsinidis** of **Munro** - a **GSFM** affiliate - says no, and believes decarbonisation remains a multi-decade opportunity. He says there are four industries that stand to benefit from the theme and can reward long-term investors.

Ted Alexander was brought into **Platinum Asset Management** in early March to reinvigorate its International Fund. In an interview with *Firstlinks*, he outlines the changes he's made to the widely-held fund, while still staying true to its contrarian and value-driven roots.

The recent federal election outcome has puzzled many, with Labor's significant win despite a modest primary vote share. Preference flows played a crucial role, highlighting the complexity of forecasting electoral results, according to **Tony Dillon**.

Lastly, in this week's whitepaper, **The World Gold Council** breaks down gold demand trends from the first quarter of this year.

Curated by James Gruber and Leisa Bell

Getting rich vs staying rich

James Gruber

People reading *Firstlinks* fall into two camps: they want to make money or they want to hold onto it.

Yet getting rich and staying rich require different approaches. Why is that?

There are two primary reasons. First is the attitude to risk. If you have little money and want to become wealthy, you’re more willing to take greater risks with the money you have because you have less to lose. Conversely, when you’re wealthy, you have a lot to lose and that reduces your appetite for risk.

Second is the attitude to time. People who want to make money are generally in a hurry. That might be because they see those who are wealthy and want to be like them, or perhaps subconsciously they’d rather enjoy the fruits of their wealth in their 30s or 40s rather than when aged in their 80s. On the other hand, people who have wealth have all the time in the world and they can allocate their money accordingly.

Let’s first dig into the main reason that people are here: to make money. How do you go about doing this? There are five ways:

1. Luck

You can get lucky and become rich. Examples include winning the lottery or pokies, inheriting a bunch of money, or marrying into wealth.

When I look around, I see a lot of people hoping that luck will come their way and deliver them riches.

For evidence, look no further than Australia's love affair with gambling. Each year, we spend almost $200 billion on gambling. That's about $7,500 per person. Most of the money is spent on lotteries, casinos and poker machines, though sports betting is rising in popularity.

Why do people gamble? Some of it is for fun. For a smaller group of people, it's an addiction. Mostly, though, it's about making money.

Another way you can get lucky is by inheriting a lot of money. This is becoming more commonplace with an estimated $5.4 trillion wealth transfer in Australia over the next 20 years. It's principally property that has made the Baby Boomer generation wealthy, and this property wealth will be passed on to other generations.

The history of those who've inherited fortunes paints a mixed picture. Lists of the world's richest people are full of those who've inherited a heap of money but gone on to build even greater wealth. Think Elon Musk in the US, or Gina Rinehart and Anthony Pratt in Australia.

There are plenty of cautionary tales too. When Cornelius Vanderbilt died as the richest American in 1877, his heirs inherited today's equivalent of US$400 billion. Within three generations, all that wealth had disappeared, thanks to poor financial management and lavish spending.

Another way to get lucky is by marrying into wealth. I won't say more about this lest I get into trouble.

Summing up, the odds of getting lucky – through gambling, marriage, inheritance, or other means - are small and most people can't rely on it to become wealthy.

2. Work

This is the commonplace strategy to gain wealth. However, it's difficult to become filthy rich through this approach.

There are three things to note about work and wealth. First is that it takes time. Think about doctors. They do 12 years of schooling, before eight or more years of university. Then they do an internship for one year before prevocational training for another year or more. From there, they become a specialist and that's where the money starts rolling in. Yet, most will have hefty HECS debts to pay off. It's only in their 40s that doctors become well off or significantly wealthy.

Second, the amount of money that can be earned through work is capped. Even for doctors and lawyers, their income is limited by their personal output. If they don't work, they don't get paid.

Third, it's tough to become very rich through work. Yes, you can become a CEO or a cardiologist, though the odds are against you. Also, high taxes on personal income in Australia don't help. It's why many of our best and brightest head to places where taxes are lower, such as Asia or Dubai.

All up, work is the safest of all the strategies though the amount of wealth it can bring is limited.

3. Owning a business

Have a look at this list of the top 10 wealthiest Australians.

Rank	Name	Net Worth	Industry
1	Gina Rinehart	$29 B	Metals & Mining
2	Harry Triguboff	$18.8 B	Real Estate
3	Mike Cannon-Brooks	$18.3 B	Technology
4	Scott Farquhar	$17.9 B	Technology
5	Andrew Forrest & family	$16.1 B	Metals & Mining
6	Cliff Obrecht & Melanie Perkins	$11.5 B	Technology
7	Richard White	$10.1B	Technology
8	Anthony Pratt	$8.7 B	manufacturing
9	Bianca Rinehart & siblings	$8 B	Metals & Mining
10	Frank Lowy	$7.9 B	Finance & Investments

Source: Forbes

What do you notice? All of them bar one own businesses. Even the outlier, Bianca Rinehart and siblings, are the beneficiaries of a business.

So, being an entrepreneur or businessperson is the principal way to reach these rich lists.

Yet, it entails significant risks. Surveys suggest that 20% of businesses in Australia fail within their first year, and 60% are gone by year three. And around 43% of small businesses fail to make a profit and 75% of small business owners take home less than the average wage.

There are ways to reduce the risks of owning a business. Buying a franchise is an option. Buying a well-established brand with standardised procedures and protocols has many benefits. Be aware though that the franchisor owns the franchisee and has all the power in the relationship.

Personally, I've started businesses from scratch and bought one. In my experience, buying a business is far less risky than starting one from scratch.

And if you do choose to build a start-up, it might be best to find a partner or partners to share the load and who have different skillsets. Flying solo with a startup business is hard yards.

4. Investing

Here's a secret that no business or investing publication will say out loud: investing alone won't make you rich. And by rich, I mean rich enough that you don't have to think about money.

There are exceptions, of course. If you can plough money into investments and earn 20% a year over 40 years, yes, you can become very wealthy. But most people aren't Warren Buffett.

And, yes, there are fund managers that have plenty of wealth. I would argue it's more about owning a business than through investing itself.

Finally, there are a selected few who have made life-changing investments. Perhaps by being an early investor in Microsoft, Amazon, or Pro Medicus.

The truth is that investing can do wonders for your wealth, but it alone won't put you on a rich list any time soon.

5. A combination, with leverage to boot

A lucrative approach can be to combine two or more of the above approaches. Having a good paying job and regularly investing savings in the share market. Or having a business where excess profits are invested. Or, for the ambitious, to work and have a side business, while investing any savings.

People who want to get on the fast-track to wealth often use leverage and a lot of it. That's worked well in recent decades with falling interest rates. The important thing to note is that debt increases the upside on an investment, though it also increases the downside too.

There are many stories about the potential perils of using leverage. In markets, one of the more famous ones is Jesse Livermore, a trader who used a huge amount of leverage to short the US market and profit from short positions during the Great Depression, making the equivalent of billions of dollars. Only to lose it all in the following years.

Or the case of Long-Term Capital Management (LTCM), a hedge fund founded by Nobel laureates and Wall Street veterans in the 1990s. The fund managers used quantitative models and massive leverage to produce stunning returns in the initial years. That emboldened them to take greater risk, though it unravelled when the Asian financial crisis triggered a cascade of market events, resulting in $4.6 billion in losses and threatening the stability of the global financial system.

Staying wealthy

Ok, so you've made your money. What then? The problem that a number of wealthy people have is that the strategies they use to make money aren't the best ones when trying to preserve money.

There are cautionary tales about those who've blown their riches, like the Vanderbilts mentioned above.

Other examples come from the 2000s commodities boom and bust.

In 2012, Elke Batista was Brazil's richest man with wealth then totalling US$35 billion. Two years later, he was bankrupt. How did it happen? Batista made his money through oil and other commodities and used a lot of debt to do so. When the commodities boom turned to bust in 2012, his leveraged empire went with it, and in 2014, he reportedly had a net worth of *negative* US$1.2 billion.

Another example comes from closer to home. Nathan Tinkler went from nothing to coal baron in 2000s. In 2012, he was named by BRW as Australia's youngest billionaire. He splashed out with purchases of the Newcastle Jets soccer club and the Newcastle Knights rugby team.

When coal prices tanked, his empire crumbled. In 2016, Tinkler was declared bankrupt.

What did Batista and Tinkler do wrong? They principally bet on commodities, with leverage, and eventually lost. Their error was in concentrating their wealth in one sector and not sufficiently spreading their bets elsewhere.

The lesson is that though concentration can be the friend of those who want to get rich, it's the enemy of those who wish to stay rich.

The question is: how best to diversify? All assets have risk attached. Cash in a bank or under a mattress can be risky in the event of hyperinflation – just ask the Germans who still have it seared in their memories more than a hundred years later. Bonds similarly have lost all their value – in Germany, it happened three times in the first half of last century.

Property has risks – though don't tell that to the millions of property boosters in Australia. Think of Japan, where property has never really recovered after the 1990 crash.

Equities have risks too. The finance industry loves to quote US market history, which has shown that markets always recover relatively quickly from downturns. Less mentioned is that Japan's market only reclaimed its 1990 highs early last year - 34 years later.

There are two rules when trying to preserve wealth:

1. Higher returns generally entail higher risk. Equities have higher returns and greater volatility. Cash is the least volatile asset class, though it has the lowest returns.

2. Diversification is your friend. It will minimize your upside though reduce your downside too. But it will give you peace of mind that your wealth can withstand whatever is thrown at it in future.

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Does dividend investing make sense?

Geoff Warren

Investing for income – known as dividend investing when applied in the stock market – is a strategy that involves investing for yield while planning not to access the capital. Often it entails a preference for high income yields. But necessarily so. Dividend investing may also entail buying stocks that can grow the dividends they pay out over time. Either way, the underlying motivation is investing to capture an income stream.[1]

Income investing can be popular among wealthier individuals. It is often considered suitable for retirees, including parts of the super industry, on the basis that the aim during retirement is to generate 'income' to live on.

Does the strategy make sense? There are arguments on both sides, and no definitive answer. The discussion here focuses on dividend investing as a case study.

Arguments in support of dividend investing

- **When investing for long term, only the income matters** – Holding a stock indefinitely means the entire 'return' comprises the dividend income received. Meanwhile, the share price in the interim may be viewed as largely irrelevant. Adopting this mindset can have behavioural benefits. Specifically, it supports the investor to look through market 'noise' and price volatility and encourages them to stay the course and not sell out in response to market declines.

- **Limiting the costs of investing** – Holding stocks indefinitely to collect the dividends reduces the cost of investing through minimising transaction costs and potentially capital gains tax (CGT).
- **Capturing franking credits** – Franking credits can provide a 'return bonus' to the extent that franking is not 'priced', i.e. embedded in share prices and hence lower dividend yields and expected returns. The consensus from the academic literature is that franking credits are partially priced at best.
- **Evidence that higher payout ratios are associated with higher earnings growth** – Research finds that higher payout ratios (i.e. percentage of earnings paid out as dividends) have historically been associated with higher rather than lower earnings growth as might be expected. This implies that investing in stocks that pay generous dividends offers the potential to generate higher total returns[2].

Arguments that question dividend investing

- **The source of returns is secondary** – Wealth generation depends on total return: whether this arises from dividends or capital gains is of limited consequence. Money for spending can be either taken as income or by selling some shares. One modest caveat is that the equivalence may be disrupted by differential tax rates on income versus capital and transaction costs. (Note: The tax impacts are complex.)
- **Dubious strategy for retirement** – If the aim is to convert savings into retirement income support of spending during retirement, then dividend investing becomes quite dubious. Only spending the dividends received and not drawing down on the capital guarantees not fully utilising the savings. Worse still, if earnings and dividends rise over time then retirement income will grow. This pattern grates against the propensity for many retirees to decrease spending at older ages. (A caveat here is that retaining and growing capital may be appropriate if the aim is to leave a large bequest.)
- **'Never need to sell' mentality not necessarily beneficial** – Adopting a stance of focusing on income while intending to never sell only works if the rationale for holding a stock is enduring. It can work if a blue-chip or growth company can be found that survives and continues to prosper – although finding such stocks is easier said than done. A more important issue is that share price after purchase is not necessarily irrelevant. Dividend yields and expected returns constantly recalibrate as prices fluctuate. If the stock rises too high and the dividend yield decline, it may make sense to sell and redeploy the capital into better opportunities.
- **High dividends yields can be warning sign** – High dividend yields may be a sign of unsustainability, i.e. a 'dividend trap'. Dividends can also be generated by financial engineering, e.g. paying dividends out of capital rather than earnings. For example, a company could raise unneeded equity capital or borrowing to pay a higher dividend, but is essentially distributing capital not income.
- **The game may have changed for franking credits** – Many Australian stocks appear highly valued versus their global counterparts (e.g. the banks). This might be a signal that franking credits may have become fully priced.

No substitute for investment fundamentals

What really matters for generating returns is investment fundamentals, rather than whether the returns come in the form of dividends or capital gains. For instance, a company paying out a large portion of their earnings as dividends may be a signal of either capital discipline or an absence of growth opportunities. Conversely, retaining a large portion of earnings could reflect attractive growth potential or reluctance to return capital to shareholder even though it cannot be invested productively. Distinguishing which of such possibilities might apply matters more than the dividend itself. In general, the capacity of a company to create, or at the very least maintain, shareholder value is likely to be the primary determinant of whether a stock can generate good long-term returns for investors.

Also, a 'never sell' mindset can lead to ignoring signs of a fundamental change in a company's capacity to create value. And it can also carry an investor all the way through into a bubble and out the other side, thus missing the opportunity to redeploy the capital elsewhere on more attractive terms.

So … does dividend investing make sense?

There is no definitive answer to this question. Dividend investing might work for some investors, most notably wealth accumulators with very long horizons that may benefit from making investment income the focus. The main suggestion for such investors is to pay attention to investment fundamentals and the price paid for the income, and not just adopt a 'never sell' mindset. Meanwhile, dividend (i.e. income) investing seems a poor idea in retirement, unless the aim is to leave a large bequest. Basically, it all depends.

[1] Here are links to a few articles that pursue this line of thinking: Warren Buffett hates dividends: These charts and ASX 200 stocks make the case for dividend investing; https://www.firstlinks.com.au/an-alternative-asset-class-for-income-seeking-retirees; https://www.firstlinks.com.au/thornhill-living-investment-income-retirement
[2] The evidence on whether high returns are also generated is more mixed. Also, whether the rise of the magnificent seven US tech stocks may change the conclusions is an interesting question.

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Tariffs are a smokescreen to Trump's real endgame

John Abernethy

Scott Bessent, the US Treasury Secretary, recently responded to sharply declining investment asset prices across US capital markets by trying to explain the true rationale behind the Trump Administration's proposed disruptive trade policy settings. This was prior to this week's agreement with China for a 90-day tariff reprieve and his further statements that were partly consistent with his earlier musings.

Noting that US capital managers and businesses are driven by capitalistic instincts that are occasionally checked by a swaying tolerance to risk, clear communication is always needed. US equity markets by mid-April had slumped by 15%, and ten-year US bonds touched 4.6% following the so-called Trump Liberation Day.

The 'Trump play' that challenged investor confidence and led to market gyrations, now appears to be taking the following course:

1. Forcibly disrupt the world order and security settings – attack NATO.
2. Announce extreme and confronting tariff policy changes – attack everybody.
3. Pivot to disrupt both direct individual trade responses and the development of non–US trade alliances.
4. Negotiate aggressively before the dust settles and claim victory – no matter what the real outcome is.
5. Tactfully refrain from discussing the real US problem – the massive US fiscal imbalance.

So, what has Bessent communicated to the capital markets?

Across a range of recent presentations and interviews, some public with some private and leaked, Bessent outlined the logic of the trade or tariff changes proposed by the Trump Administration. Underlying most of the commentary was a focus upon the US trade deficit with China and their major manufacturing affiliates such as Vietnam, Thailand, and Cambodia.

Bessent's comments can be summarised as follows:

1. China manufactures too much and under consumes.
2. The US does not manufacture enough and over consumes Chinese manufactured goods.
3. China should no longer be granted the status of being a "developing or emerging economy", by either the IMF or WTO.
4. Europe needs to be stimulated to increase Government expenditure and towards its own defence capabilities. This will support European economic growth and promote trade with US defence manufacturers.
5. The suggested increased tariff rates will ultimately be negotiated down (to a 10% base ex China), but always dependent upon the existence or the perception by the US of enduring export incentives and/or of currency manipulation by trade partners. He noted that there are about 18 countries who primarily account for the $1.2 trillion US trade deficit. Notably, China directly accounts for about US$300 billion whilst President Trump claims it represents a trillion dollars of US economic losses.

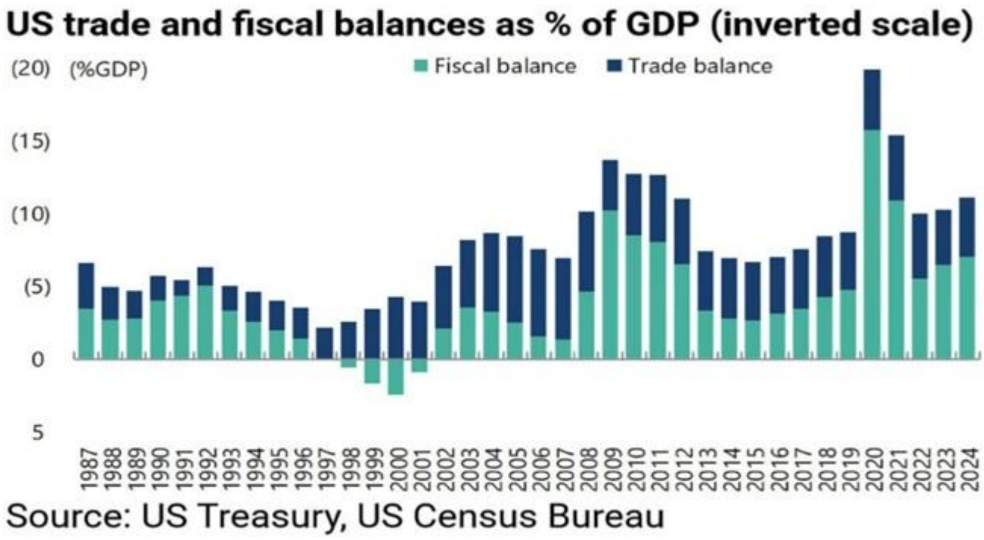
6. Significant tax incentives (immediate write offs) are proposed for the mobilisation of US capital towards import replacement. Also, red tape will be cut to support US production of both manufactured goods and energy.
7. Whilst there is an ongoing review of US Government expenditure (DOGE) there is no likelihood nor is there an intention to reduce the US fiscal deficit to below 3% of GDP in the current Trump term.
8. However, the Trump Administration aims to grow GDP at greater than 3% to reduce the debt to GDP ratio. It therefore does not intend to pay down US Government debt, rather to continually roll over debt as it matures.

It is my view that whilst Bessent's presentations have been informative they lack a degree of credibility. He merely touches, in passing, upon the great fiscal imbalance of the US Government, suggesting that trade deficit is the root cause – which it is not. Nor has he shown how the trade deficit can be sustainably reduced through the export of goods that the US has a comparative advantage in producing and despite an inflated USD.

In essence, Bessent claims that the US will grow its way through its debt and stabilise the debt to GDP ratio which sits at about 105%. Thus, a reset of the world trade order is a necessary first step for this to occur.

However, a review of the last 50 years suggests that a US trade deficit has neither slowed nor affected its growth. The intransigent trade deficit may be a concern, but it is the fiscal position of the US that is a far greater problem.

As the following chart shows, the US has not had a trade surplus over the last 50 years. So why is it a problem now? Indeed, the trade deficit has been stable over that period (at about 3% of GDP), whilst the fiscal deficit has grown out of control and has been on a clear upward trajectory from 2014.



My thoughts on Bessent's message

I believe that Bessent's messages (prior to the China meeting) were a call (a plea) for US capital markets to not panic and to trust the Trump Administration. Whilst the US stock market is a sentiment indicator of US investors, it is the US ten-year bond yield that is the bellwether of international capital support. Quite simply, the Trump Administration will fail if bond yields rise whilst it is rolling most of its US$34 trillion of debt over the next four years. The debt may not be Trump's fault, but his policies have increased the risk that the US economy becomes threatened by inflation, recession, and therefore a higher cost for Government debt.

At this point, US capital market participants, including some of the largest Investment Banks and Pension Funds will have been asked to hold their nerve, present a brave face, and to support the economic plan. This will also support the sentiment of foreign capital providers to ensure (hopefully) that they do not lose confidence and drift away from the US.

It is a great game of bluff but Trump and Bessent do hold one wild card - Quantitative Easing (QE). Indeed, I suspect that major US investment groups have a belief that QE will be utilised in the future if needed. ***Could it be a 'Trump Put'?***

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Will the QE wild card be used? Absolutely, if necessary to bring down bond yields. I suspect the looming battle between the US Federal Reserve (Fed) and Trump/Bessent could become the defining moment in the direction of US economic policy settings. China's trade deal will be important, but it cannot solve the US debt problem.

Indeed, the US has now entered a period of elevated inflation (tariff created), supply disruption (China induced) and a concerned bond market (the Fed inactive). After a decade of unprecedented revaluation, the true value of the USD is suddenly under the microscope. The bloated US fiscal deficit must be addressed.

This presents the background to a key point that Bessent has briefly mentioned, but which US capital markets are tactfully or bravely ignoring. As the following table shows, the US fiscal deficit is already US$200 billion worse over the 7 months to April then the previous year's corresponding period. The Biden forecast deficit of US $1.9 trillion for FY25 (October end) will be exceeded with a US$2 trillion deficit or 6% of US GDP now likely in FY25.

Table 1.

Budget Totals, October–April

Billions of Dollars

				Estimated Change With Adjustments for Timing Shifts in Outlays[a]	
	Actual, FY 2024	Preliminary, FY 2025	Estimated Change	Billions of Dollars	Percent
Receipts	2,964	3,111	146	146	5
Outlays	3,819	4,161	342	270	7
Deficit (–)	–855	–1,051	–196	–123	13

Data sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for March 2025 and the *Daily Treasury Statements* for April 2025.

FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend or a holiday.

The US cannot balance its budget today, and the Bessent target of a 3% deficit (against GDP) suggests that the US never will. Further, the funding of the US fiscal deficit is highly reliant on confidence being maintained in the US bond market. A weakening USD heightens the risk that foreign capital will exit the US and certainly the US bond market.

It will not be surprising if trade negotiations include a covert understanding for US bond market support from allies such as the UK, Europe and Japan.

A significant QE program, like that utilised in Japan under Shinzo Abe from 2012 onwards, may well be needed to support bond prices and reduce yields because the US interest bill is rapidly rising. Indeed, Bessent recently said that when he was a hedge fund manager, that he had met with the Japanese PM and was most impressed with Abe's strategy to manage the Japanese economy and its government debt crisis.

Remember in that period Japanese bonds yields were negative under Abe's direction. It became known as 'Abenomics' with ten-year bonds pushed by QE to negative 1%. Further, the Japanese Central Bank pushed out foreign creditors and today owns 53% of all Japanese bonds on issue. It is notable that today the FED today owns about 22% of US Government debt.

On average the US Government is currently paying about 2.5% p.a. for its debt (some US$800 billion of interest). As this debt is rolled over and with a trillion dollars (a least) of new debt created each year, this cost will rise towards 4% pa. The interest bill on this basis will lift by US$0.5 trillion p.a. and so all the work done to reduce the 'pre interest fiscal deficit' or 'underlying deficit', through tariffs (revenue) and DOGE (lower costs), will be lost.

The funding of the proposed Trump US tax reductions becomes extremely difficult unless bond rates decline and that is where the direction of the Fed and a substantial QE policy come into play. More so when the US Government hits its next debt limit.

In the meantime, and over the next decade, it will be crucial for the US to regrow its manufacturing base and to significantly grow its exports. Reducing imports is far less important and the US should not aim to close out imports from sources that have competitive advantage. To do so will merely create both inefficient and high-cost US economy. Such a policy will not support the US from generating economic growth that grows faster than its debt.

The Trump Administration has embarked on an ambitious plan to restructure the US economy, but the true target is the 'out of control' fiscal position. The tariff negotiation and upheaval are a smokescreen to the real Trump play.

So, what could QE mean for investors?

1. US bond yields, being the 'risk free' rate of return are driven lower and below inflation readings.
2. Negative real yields become a feature across US interest markets and flow across other economies.
3. This sustains the PER rating for the US equity market, but it does not guarantee strong economic growth – remember the stagnating periods that inflicted Japan and Europe post the GFC when interest rates were set around zero.
4. A brief period of asset inflation occurs but it will be checked at some point as economic reality sets in.
5. The USD weakens with QE and whilst this creates export potential it does potentially lift inflation.
6. The weakening cycle of the USD acts to push foreign capital out of the US as the likelihood of both moderate capital gains and extremely low income returns becomes clear; and
7. Gold, precious and industrial metals, revalue against a weakening USD.

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

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Ageing in spurts

Don Ezra

Recently I've focused a lot on aspects of longevity. A blog post on explaining the often-misused term 'life expectancy', then one on whether our lifespan is influenced more by genetics or by lifestyle, then what our biological age (as opposed to our chronological age) depends on. And now (the final one, I promise!) one on the fact that our biological age itself doesn't change at a uniform rate, but seems to increase in spurts at specific times in our lives.

A quick reminder: our chronological age is how old we are in terms of how long it has been since we were born, whereas our biological age relates to how much the life systems in our body have aged. And since different systems in our bodies have aged at different rates and to different extents, our so-called biological age is just a rough shorthand for the average of how old our body systems seem to be. For some our biological age is less than our chronological age, for others our biological age exceeds our chronological age.

The gap between the two doesn't stay constant. It seems that there are particular times when our biological clock accelerates.

OK, now to one recent study and its conclusions.

The study involved 108 participants aged between 25 and 75, resident in California. They were followed for varying periods of time, the longest being almost 7 years, though most of them were followed for a bit less than 2 years. There were, in all, more than 5,000 biological samples taken (oral, blood and stool samples, for sure: I couldn't understand what else was involved), hence more than 100,000 biological features were measured, resulting in more than 200 billion data points.

Now the conclusions.

The molecules and microbes that they studied didn't change uniformly over time. When the researchers looked at the results more closely (a colossal amount of analysis was involved), the rates of changed showed a fair amount of clustering relative to participants' ages. (And as you can guess, the effects of many factors, for example female menopause, had to be eliminated. Insulin-sensitivity and ethnicity were other causal characteristics eliminated.) Specifically, then, they identified two major waves of ageing-related molecular changes across the human lifespan.

Explaining them, a science reporter for the New York Times says that the study found that people seemed to age more rapidly around age 44, and again around age 60. The clusters of changes in the first ageing spike (around age 44) appeared to be mostly related to fat and alcohol metabolism, as well as to muscle function. The second spike (around age 60), while also involving muscle function, appeared to be mostly related to immune dysfunction. (The study's authors note that a previous study reported crests at ages 34, 60 and 78, but their data didn't include anyone older than 75.)

A study coauthor said that the first spike could help explain why people seem to have more trouble processing alcohol starting in their 40s, while the second spike could help explain why people become more prone to illness in their 60s. (This is consistent with a recent study on the ageing of mice, which suggested that there were sudden chemical modifications to their DNA, one in early-to-mid life, the other in mid-to-late life.)

I notice that they didn't comment on muscle function, though both spikes were specifically associated with muscle function, and at my age that's an important feature of my health.

Fascinating! So if you ever thought that you seemed to age more rapidly in a particular year or period of your life, now you'll know that this is not unexpected.

But I'm not going to get too excited about all of this, and I don't think we should focus too closely at ages 44 and 60. (For example, age 44 isn't really at all close to the age 34 that the previous study suggested.) What sort of study would indeed be valid in getting us excited?

In principle it's simple. You'd look at a very large number of people, accommodating differences in age and sex and race and whatever other characteristics you think might be relevant; you'd come up with an estimate of the initial biological age of each person in this investigation; and you'd follow up with frequent re-evaluations of their biological ages over a very long period of time. That way, for each person you'd be able to observe the rate at which their biological age changes; and for each group of people you'd be able to see whether and when their biological ages change at something other than a smooth rate. As I said, simple, at least in principle.

But what's simple isn't necessarily easy to actually carry out. And in fact it has proven to be remarkably difficult to do. The results cited are based on a tiny and limited study: 108 Californians aged 25-75, so, on average, two people at each chronological age; and they were followed, on average, for two years each. Not many people, not from around the world, not for very long. Not exactly definitive; in fact, barely a start. So I think these conclusions are at best an indicator of what future much larger studies should start to look at.

Would these conclusions apply, not just to a bunch of a hundred Californians, but also to people from, let's say, South America, Australia, Japan (where people reach the highest chronological ages), Africa, etc etc? If it is found that there are still spikes in the ageing process, how much do the numbers differ across people? For example, if the first spike tends to occur somewhere between 34 and 44, what does that imply for the way we should try, as individuals, to deal with it? To what extent do lifestyle and environmental factors affect the spike ages? And so on. We know nothing about any of this.

It doesn't matter that these conclusions from the study are now being widely cited as if they're established fact. As you can infer from the way I'm saying all of this, I think those conclusions are fascinating, yes, but hardly facts. Experts are cited in the NY Times article as saying that the findings are "quite interesting, but I would say preliminary," and they're just "touching the surface" of how molecular changes relate to ageing. Exactly.

Don Ezra, now retired, is the former Co-Chairman of global consulting for Russell Investments worldwide, and the author of "Life Two: how to get to and enjoy what used to be called retirement". This article is general information and does not consider the circumstances of any investor.

Platinum's new international funds boss shifts gears

Ted Alexander, James Gruber

This is an interview between Firstlinks' James Gruber and Ted Alexander, Portfolio Manager – Global Strategies at Platinum Asset Management. He recently took over running the Platinum International Fund.

James Gruber: There have been some changes in investment management at Platinum recently – can you outline those changes and your role?

Ted Alexander: I've been brought in to manage the Platinum International Fund (and Platinum's global strategies), which is a huge honour because the fund has been going for 30 years, which is an immense record, and it's outperformed the market over that time.

Andrew Clifford and Clay Smolinski have recently stepped aside. My role is not about changing Platinum's underlying approach to investing but more about enhancing the process.

JG: You have made some changes to the actual portfolio, though. Can you outline what they are?

TA: You have a process in place, do a deep dive on every stock, every holding in the portfolio. As Portfolio Manager, you've got to be 100% confident that you understand the stock, the investment, the idea, the thesis behind the investment, and that still stands.

When I came in, we got the whole global investment team to do a deep dive on every stock and looked at where we are now.

We kept most of the stocks in the portfolio. We've rotated about a third of them out. Some of those because they'd made a profit, and it was time to sell others because my view on the philosophy of that particular investment was slightly different.

We've been making some changes, but broadly we've kept being buyers of China, buyers of Europe - prefer that to the US – and looking at picking stocks with huge upside potential.

If we're thinking of thematics, we've made a few changes. We brought in some more low volatility stocks. I'm talking about consumer staples, pharmaceuticals, even telecoms. We bought some in so if we do get those slightly rockier markets, you've got a bit of safer, lower volatility stocks coming through. We've also changed some of our China stocks from offshore to more domestic thematics and listings.

JG: Are you sticking to the funds' contrarian, value roots, or do you think that needs refining?

TA: Well, you've got this 30 year proof of concept that it works. And in my view, there's never been a more important time to hold those contrarian values in place. And the reason is we've had this rise in passive investing, and so most Australian investors have got these ETFs that have a high weighting towards US technology stocks, and they need diversification, and that's what Platinum is bringing to them. We've got diversification into the UK, into Europe, into China, into sectors like industrials, pharmaceuticals, and financials. That's why I think at the moment, it's absolutely essential to stick to those roots in contrarian, value investing,

JG: The International Fund is long-short and manages currencies – in your view, how are these best used to enhance performance?

TA: When we look at the outperformance of the Platinum International Fund over 30 years, one of the biggest drivers has been our use of shorting the market in a crisis. So really protecting the upside that we've gained on positive markets when we get those big stock market events - I'm talking the dot com crash, I'm talking the GFC - we provided invaluable protection to investors, and that's been the core drivers.

We're still looking at ensuring we've got that great crisis protection in place. It's not that we're always bearish or we're always using heavy shorts; it's trying to use them to protect our investors during those serious market events.

JG: Is that shorting a bottom-up or top-down process?

TA: There's a bit of a combination of the two because when you're looking at identifying a crisis that would normally come from top down analysis but can also come from company earnings results and talks with management. But we also do bottom-up shorting as well. We'll find individual stocks that the analyst sees as really offering skewed potential downside over upside, and thinking that's a great place to put shorts on. So there is some of that bottom-up shorting, but the big crisis protection tends to be a top-down.

JG: A big talking point is Trump and the moving feast of tariffs. How do you think about that and the market environment?

TA: You can see the thinking, right? If we can raise cash through tariffs and through government efficiency programs, we push this American first agenda, but we also raise money for tax cuts. You can see how they think it could work, but it's using a lot of political and financial capital, and what seems like a bad bet.

My view is that the standard of living in America will decline through this, and you're asking the American consumer to take on extra price rises at the tail end of a cost-of-living crisis. I think this is a net negative overall.

But you can get the theory, and if other countries blindly say, ok, we'll accept a 10% tariff in return for nothing, the US gets this extra income as part of it, then trade isn't massively affected. You can see how that could work. I think in the long run, countries aren't likely just to accept that 10% - there's going to be some reciprocal action. And you've got the big sticking point on China coming through as well. Because of this dislocation occurring in the global economy, it seems like a net negative overall.

JG: What are the biggest opportunities and areas of risk around the globe?

TA: Opportunities are looking where other people aren't. We try to find stocks that have got wonderful businesses, wonderful operating models that aren't necessarily broadly appreciated or priced in.

We've been investing in China liquor via Moutai, Norwegian salmon producer Mowi, Korean bank Shinhan, Danish wind farm Orsted, Hong Kong lawnmowers via Techtronic, and Canadian uranium Cameco. They're all these diversified themes around the world. These are contrarian value plays.

Then you've got whole sectors that aren't loved or appreciated like consumer staples and pharmaceuticals – there are lots of areas that people aren't investing in. That's where the great opportunity is at the moment.

Whereas the risk is if all your investments are in one thematic in US large cap technology, and we get a big reversal there, then your whole portfolio can be really upset. Not having that diversification is a risk at the moment.

We see outside that core theme in US technology that there are many opportunities around the world to invest in great companies at reasonable valuations.

Ted Alexander is a Portfolio Manager – Global Strategies at Platinum Asset Management, a sponsor of Firstlinks. He recently took over running the Platinum International Fund.

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Four ways to capitalise on a forgotten investing megatrend

James Tsinidis

Despite the Trump Administration's retreat from global climate leadership, we nevertheless stand at the beginning of a larger structural shift – the transition to a net-zero economy. For investors, few themes have ever matched the scale and urgency of climate change. Climate change is a multi-decade investment opportunity, and one that will outlast the current four-year term of the Trump presidency.

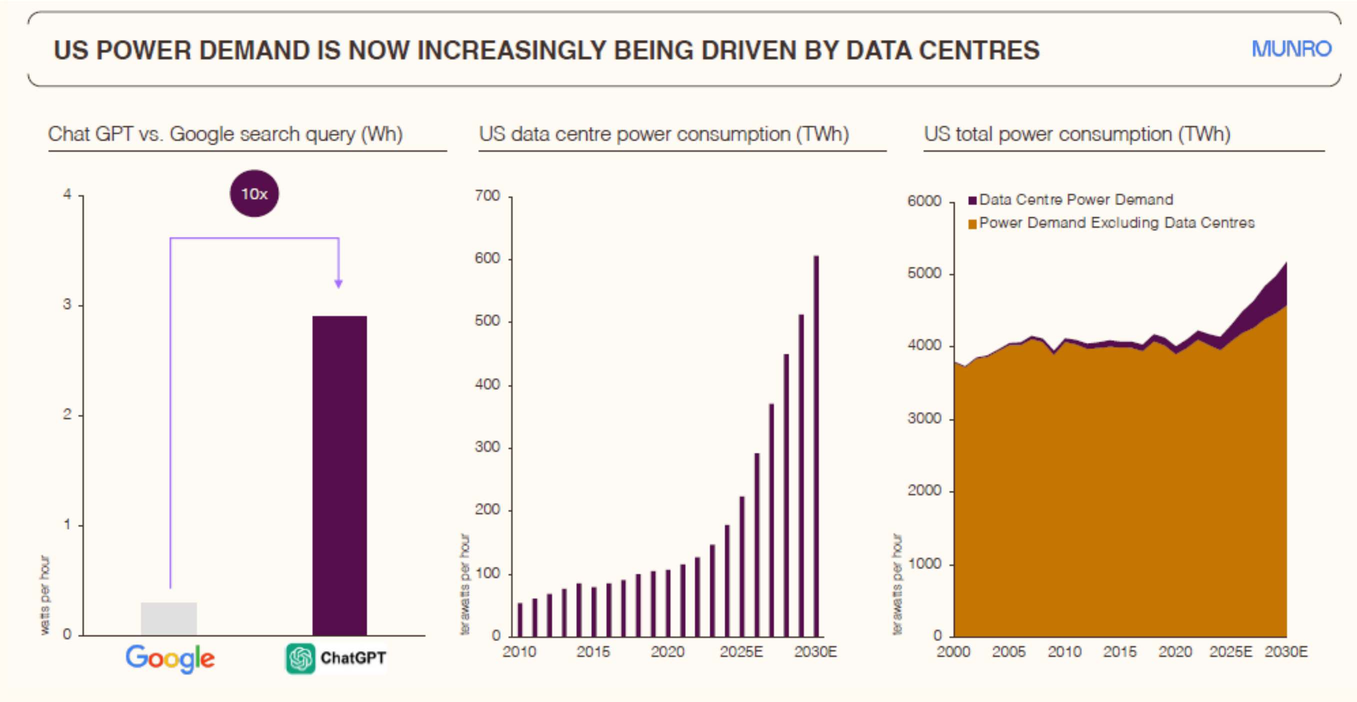
Decarbonisation is not a distant goal but a process that is already well underway, driven by governments, corporations, and investors alike. Identifying the companies driving this transition requires an approach that goes beyond simply screening out high emitters. The real winners will be those delivering practical solutions to decarbonisation – whether by producing clean energy, reducing industrial emissions, or improving efficiency across sectors.

Opportunities in clean energy

There are investment opportunities in renewable energy producers, though investors should be more cautious with those producing solar and wind energy. China has oversupplied solar, and wind has industry-specific supply chain problems. Nuclear energy, on the other hand, is seeing greater support as a reliable, carbon-free power source.

Constellation Energy (NASDAQ:CEG), for example, is a leader in the field. The company owns the largest fleet of nuclear power stations in the US. Nuclear energy is a carbon-free source of electricity, and nearly 90 per cent of Constellation's annual output is carbon-free. The company is likely to see rising demand for its clean energy.

Corporate investment, too, is turning nuclear climate ambition into reality. Some of the world's largest companies – including Microsoft, Amazon, and Google – are making direct investments in nuclear power and signing long-term power purchase agreements (PPAs) to ensure a stable supply of carbon-free energy. These investments are not just about sustainability, but about meeting demand. Demand is rapidly increasing, driven by artificial intelligence (AI) and data centres, as well as US reshoring and electrification of transport and industry.



Source: Munro Partners estimates and industry research as at 30 September 2024. The companies mentioned may or may not be held in the Munro funds.

At the same time, commercial real estate owners and industrial manufacturers are investing in HVAC (heating, ventilation and air conditioning) systems, insulation, and efficiency upgrades, which help cut costs while reducing emissions.

This shift marks a fundamental change in how businesses view climate solutions. Instead of simply offsetting emissions, companies are embedding decarbonisation into their operations, supply chains, and infrastructure. The result is a growing demand for technologies that enable net-zero goals, from energy storage to next-generation grid systems.

A focus on energy efficiency

Beyond clean energy generation, energy efficiency is key to reducing emissions in the US. This remains one of the most overlooked areas of climate investment. Unlike energy production, efficiency solutions reduce demand altogether, cutting costs and emissions in the process.

Buildings alone account for nearly 40 per cent of global energy use, making HVAC systems, insulation, and energy management software critical areas of investment. With short payback periods – often under two years – energy efficiency solutions represent one of the fastest-growing and most financially attractive areas of climate investment.

At the same time, industrial energy efficiency is becoming a major investment theme. Technologies such as industrial process optimisation, heat pumps, and waste heat recovery are improving operational efficiency in manufacturing, logistics, and data centres.

AI impacts

The rapid adoption of AI is reshaping global energy consumption. AI workloads are significantly more power-intensive than traditional computing, and as businesses deploy AI at scale, data centre electricity demand is set to surge. Data centres already contribute over 2.5 per cent of global emissions, a figure set to rise as AI expands. AI could increase the urgency of the energy transition, forcing companies to scale clean energy investment and grid infrastructure faster than previously expected.

Energy efficiency will become more important. Nvidia (NASDAQ:NVDA), for example, leads in this area. As the world's demand for AI grows rapidly, Nvidia is enabling more energy efficient data centres through its Graphics Processing Units (GPUs), which are as much as 20 times more energy efficient for certain AI and high-performance computing workloads versus Central Processing Units (CPUs). Newer computer chip products are continuing to achieve large energy efficiency gains per unit of computing.

Additionally, AI is playing a role in grid optimisation. Machine learning models are being used to improve electricity demand forecasting, enhance battery storage performance, and increase the efficiency of industrial and building energy systems. While AI is accelerating the need for clean power, it is also emerging as a key enabler of smarter energy use.

Circular economy – reducing waste, increasing sustainability

The transition to a sustainable economy is also about redefining how we use materials. The circular economy focuses on reducing waste, increasing recycling, and creating more sustainable production systems.

Plastics, industrial waste, and water scarcity present some of the biggest environmental challenges today. Companies involved in waste management, advanced recycling, and water treatment solutions are seeing rising demand, particularly as corporate and government policies push for higher sustainability standards in packaging and industrial processes.

Beyond traditional waste management, innovation in alternative materials, such as bio-based plastics, low-carbon cement, and synthetic fuels, are opening up new investment opportunities. These industries are still in the early stages, but they are set to grow as global supply chains adapt to increasing regulatory and consumer pressure.

We believe companies operating in clean energy, clean transport, energy efficiency, and the circular economy will be the winners of this structural shift. Climate change is a multi-decade investment opportunity, and as the world accelerates toward a low-carbon future, long-term investors who have positioned early in the climate thematic will be well placed for the next phase of growth.

James Tsinidis is a portfolio manager at Munro Partners. Munro Partners is a fund manager partner of GSFM, a sponsor of Firstlinks. This article is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons.

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How the election polls got it so wrong

Tony Dillon

The federal election has been run and won, and many are asking the question of why the polls did not predict Labor's thumping win. A minority Labor government was the popular pollsters' outcome, or a slender Labor majority at best.

But Labor trounced the Coalition, winning 91 seats to 40, to now take up nearly two-thirds of the lower house chamber. And it achieved this with only a little more than a third of the primary vote. In fact, its primary vote was up just two percentage points from its 2022 win, to an underwhelming 34.7%, yet it has added 14 seats to its previous majority.

Compare this to Julia Gillard's 2010 38.0% first preference vote, which only secured minority government. Or Tony Abbott's emphatic majority in 2013, requiring a significant 45.6% primary vote to win 90 seats. There is a clear upward trend in the ratio of seats won to primary vote, for the victor.

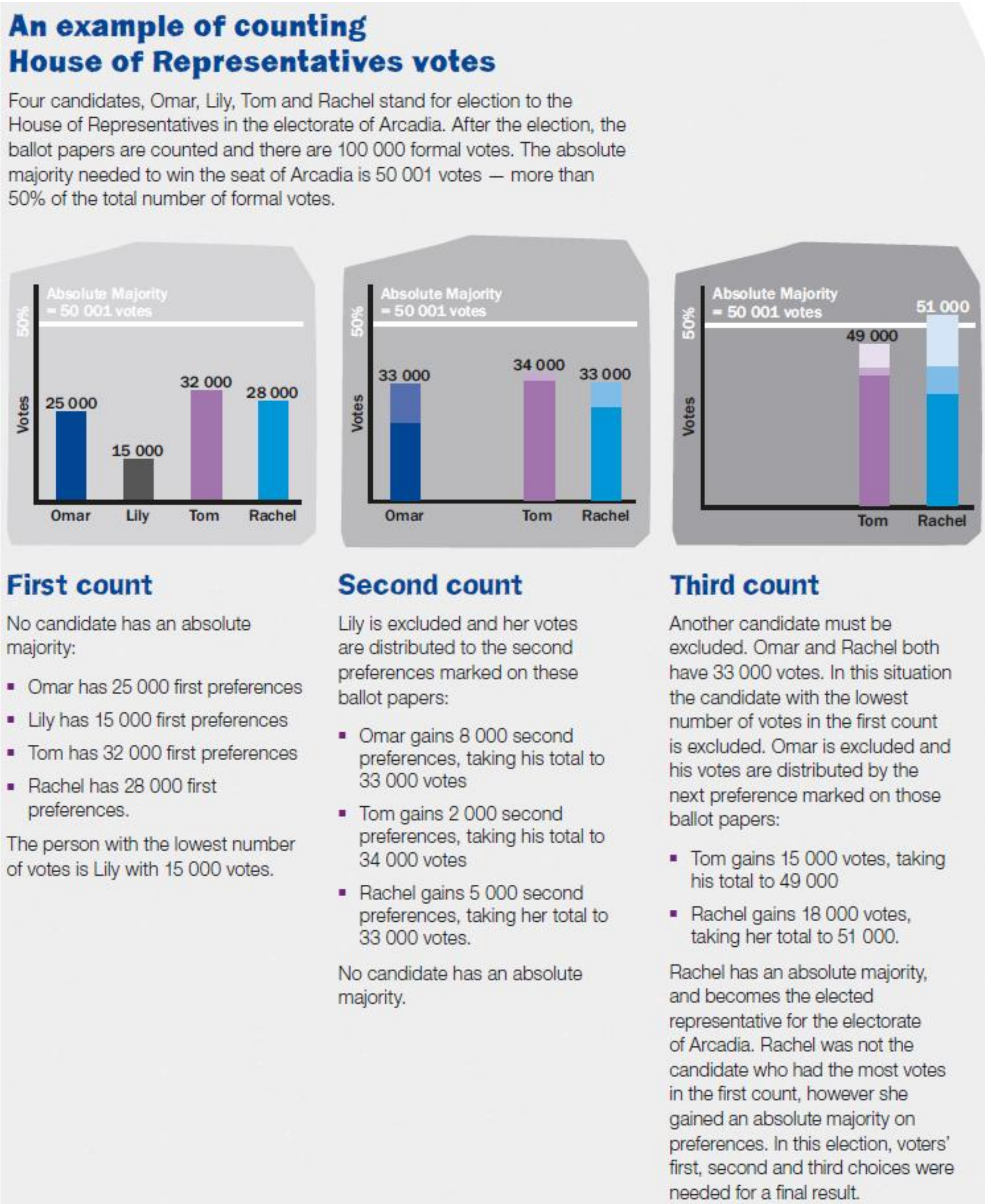
And with the Coalition's share of the primary vote a clear rejection at just 32.3%, support for the two major parties is plummeting.

The importance of preferences

We also saw at this election, 130 of the 151 seats decided by preferences, including 16 seats that flipped on preferences to Labor after it was behind on the primary vote. That, with the Labor two-party-preferred (TPP) vote a whopping 20 percentage points up on its primary vote to 54.6%, reveals the extent to which lower order preference votes contributed to the Coalition rout.

The significance of preference vote flows from minority parties and independent candidates is now more pronounced than ever. Which certainly creates havoc for pollsters. Trying to predict outcomes from national primary vote swings is becoming increasingly more difficult.

The problem is that polls focus on primary votes. But if future polling is to become more accurate, it needs to be recognised that preferences decide outcomes today, and polling methodologies must evolve accordingly.



An example of counting House of Representatives votes

Four candidates, Omar, Lily, Tom and Rachel stand for election to the House of Representatives in the electorate of Arcadia. After the election, the ballot papers are counted and there are 100 000 formal votes. The absolute majority needed to win the seat of Arcadia is 50 001 votes — more than 50% of the total number of formal votes.

First count

No candidate has an absolute majority:

- Omar has 25 000 first preferences
- Lily has 15 000 first preferences
- Tom has 32 000 first preferences
- Rachel has 28 000 first preferences.

The person with the lowest number of votes is Lily with 15 000 votes.

Second count

Lily is excluded and her votes are distributed to the second preferences marked on these ballot papers:

- Omar gains 8 000 second preferences, taking his total to 33 000 votes
- Tom gains 2 000 second preferences, taking his total to 34 000 votes
- Rachel gains 5 000 second preferences, taking her total to 33 000 votes.

No candidate has an absolute majority.

Third count

Another candidate must be excluded. Omar and Rachel both have 33 000 votes. In this situation the candidate with the lowest number of votes in the first count is excluded. Omar is excluded and his votes are distributed by the next preference marked on those ballot papers:

- Tom gains 15 000 votes, taking his total to 49 000
- Rachel gains 18 000 votes, taking her total to 51 000.

Rachel has an absolute majority, and becomes the elected representative for the electorate of Arcadia. Rachel was not the candidate who had the most votes in the first count, however she gained an absolute majority on preferences. In this election, voters' first, second and third choices were needed for a final result.

Source: Australian Electoral Commission

But preference flows are not linear. They can vary significantly between electorates depending on the candidate and party profile. Consequently, there is a lack of data and modelling to accurately forecast vote flows. Unless more sophistication is introduced into the polling process, we should continue to expect the unexpected in future elections.

The fact that Labor was able to secure its huge majority with just over a third of the primary vote, highlights its ability to attract second, third, and lower order preference votes. And which in many seats allowed it to jump over the Coalition after primary votes, to secure the win. Which just goes to show that a preference voting system can favour the least disliked candidate over the most liked.

A move to the left

A broad interpretation of Labor's strong result after securing such a low primary vote, suggests that a majority centre-left bloc exists in the electorate after preferences have been distributed. Differing political entities exist because of different policy platforms at a primary level but become more ideologically aligned at higher levels. And the alignment of minor parties and independents with Labor via preferences, proved more substantial than that with the Coalition.

This was more than just a Labor victory. It was a shift in voter sentiment on the political spectrum. This is the uniting effect of preferential voting: the bringing together of entities on the same ideological page.

For the Coalition, the implications of the election results are such that it must shore up its base and lift its primary support. And at the same time appeal beyond its base to strengthen the preference equation. The challenge will be to determine to what extent it must pitch a more centrist approach to raise its competitiveness in a preferential voting system, without compromising its core political values.

A competitive opposition is essential for a healthy democracy to keep the government of the day in check and be ready to step in as an alternative government.

For Labor, even with a supersized majority, it must not stray too far from centrist politics lest it weakens the majority bloc it heads up that has coalesced under preference votes.

The merits or otherwise of our preferential voting system have long been debated. The vagaries, challenges, and issues it throws at pollsters, voters, and political entities are intriguing, but must be adapted to, because it has been part of our voting system for a long time now, and it isn't going away any time soon.

Tony Dillon is a freelance writer and former actuary.