Firstlinks

a Morningstar company

Edition 614, 6 June 2025

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Editorial

UnitedHealth is a US mega cap stock that isn't well known in Australia even though it's had an astonishing fall from grace over the past few months. The medical insurer had been a market darling and a top 20 company in the S&P 500 index, having risen more than 6x over the decade to early April. Then it plummeted.

Source: Morningstar

Greater Government scrutiny of its business practices and the departure of senior executives led to the stock falling almost 60% in just five weeks.

The question that many institutional investors are asking is whether the company is now a buy or not.

History gives them some reassurance as UnitedHealth fell more than 80% from highs in the 1980s and dropped 72% during the GFC, only to bounce back in better shape on both occasions.

More broadly, there are many recent examples of stocks having had major falls which have turned into extraordinary buying opportunities for investors.

Think of Nvidia, which lost two-thirds of its value in 2021-2022, only to catapult 11x higher from the lows.

Source: Morningstar

Or Meta, which lost 76% during the same period and was on the nose with investors, only for it to come roaring back, up around 7x since.

Source: Morningstar

On the flip side, there are also plenty of examples of former blue-chip stocks that have never fully recovered from losses. Think of Intel, Sears, Dell, Blackberry, and so on.

The history of drawdowns and recoveries

Rather than just rely on anecdotal evidence, renowned investment author, Michael Mauboussin, has done us all a favour by looking deeper into the drawdowns and recoveries of individual US stocks form 1985-2024.

Here are the findings from his latest research:

- The median drawdown, from peak to trough, was an eye watering 85%.
- It took 2.5 years from highs to lows, and another 2.5 years for stocks to recover to previous highs.

- 54% of all stocks never recover to their previous highs.

Maximum Drawdowns and Recoveries for U.S. Stocks, 1985-2024

	Max Drawdown	Max Drawdown Duration (Years)	Peak Recovery from Max Drawdown (Percent of Par)	Time Back to Par (Years)
Median	-85.4%	2.5	89.6%	2.5
Average	-80.7%	3.9	338.5%	3.8

Source: Counterpoint Global and FactSet.
Note: Par=Prior high (starting point of max drawdown); Reflects intraday prices; Companies listed on New York Stock Exchange, NASDAQ, and NYSE American that continued trading following their max drawdowns and had a market capitalization of 1 million (2024 U.S. dollars) at end of any month.

- Only 16% of stocks with +95% drawdowns ever return to par.
- Larger drawdowns of +95% average 6.7 years from peak to trough, and then more than 8 years back to breakeven. A 15 year roundtrip!

Base Rates for Drawdown Duration and Recoveries By Max Drawdown, 1985-2024

Max Drawdown	Max Drawdown Duration, Average (Years)	Peak Recovery from Max Drawdown As a Percent of Par, Median	Percent That Get Back to Par	Time Back to Par, Average (Years)	Count
95-100%	6.7	16%	16%	8.0	1,842
90-95%	4.3	65%	37%	5.8	830
85-90%	3.7	78%	42%	4.6	678
80-85%	3.2	100%	49%	4.2	584
75-80%	3.1	122%	54%	3.8	501
70-75%	2.5	131%	62%	3.4	456
65-70%	2.3	134%	67%	3.2	394
60-65%	1.9	149%	67%	2.5	325
55-60%	1.7	147%	74%	2.2	276
50-55%	1.4	150%	77%	2.0	241
0-50%	1.0	146%	80%	1.5	455

Source: Counterpoint Global and FactSet.
Note: Par=Prior high (starting point of max drawdown); Reflects intraday prices; Companies listed on New York Stock Exchange, NASDAQ, and NYSE American that continued trading following their max drawdowns and had a market capitalization of 1 million (2024 U.S. dollars) at end of any month.

- While most stocks never get back to breakeven, the percentage recovery off the lows can still be spectacular.

Base Rates of Returns By Magnitude of Maximum Drawdown, 1985-2024

Maximum Drawdown	Median Total Shareholder Returns, Annualized			
	1 Year	3 Years	5 Years	10 Years
95-100%	294.7%	85.0%	54.9%	32.6%
90-95%	200.3%	68.2%	46.6%	29.1%
85-90%	143.3%	55.2%	37.9%	25.8%
80-85%	130.8%	53.8%	38.1%	26.0%
75-80%	112.8%	48.8%	35.2%	24.2%
70-75%	100.9%	39.8%	29.1%	21.0%
65-70%	89.4%	36.1%	27.8%	20.0%
60-65%	78.6%	37.1%	27.5%	21.5%
55-60%	73.1%	34.8%	24.9%	19.7%
50-55%	65.0%	31.8%	24.3%	19.6%
0-50%	47.1%	29.8%	23.3%	19.0%

Source: Counterpoint Global and FactSet.
Note: Companies listed on New York Stock Exchange, NASDAQ, and NYSE American that continued trading following their max drawdowns and had a market capitalization of 1 million (2024 U.S. dollars) at end of any month; Reflects intraday prices.

- The average recovery vastly exceeds the median due to extreme positive outliers. In other words, it's the 10x+ recovery of a few stocks that skews the results of the averages.

This last point on 'skewness' or the asymmetry of returns builds on previous research from academic, Henrick Bessembinder, which showed that only 4% of firms account for all of the net shareholder wealth creation in the US since 1926.

What to look for at the bottom

After large price declines, how can investors identical potential winners and avoid losers? Mauboussin says there are six questions that investors should consider:

1. Are the fundamental issues cyclical or secular?

Some industries go through cycles, with ebbs and flows in demand, and the down phases can lead to significant share price declines. Other industries, however, are in secular decline, where demand will never recover.

Mauboussin goes through the example of Nvidia versus Foot Locker to demonstrate this. With Nvidia, the semiconductor industry has gone through many capital cycles, where demand surged and businesses built more and more capacity, until that eventually led to overcapacity and a subsequent bust in industry demand, only for it to recover in ensuing years. With Foot Locker, its decline in the 1990s reflected a secular decline in its operations as its retail format, along with others like Sears Roebuck and K-Mart, fell out of favour with consumers.

Going back to our initial example of UnitedHealth, investors need to consider whether the issues are cyclical or secular. Will increased Government scrutiny of the company and industry impair future profits? If so, by how much? Will the impact be temporary or permanent? What are the risks of further Government regulation?

2. What does the basic unit of analysis tell you about the business?

This looks at how a company makes money and whether its economics will stack up in future.

3. How lumpy are the investments of the business?

All companies must invest money before making sales and profits. If the investments are large, businesses can run into trouble before they generate sales or profits. This has happened with casinos here and abroad of late.

It's easier to scale down small investments than large investments.

4. Is there sufficient financial strength?

Does the company have a lot of debt? What are the maturities of the debt? Does it have the cashflow to see it through a crisis?

5. Is there access to capital if needed?

A lack of liquidity can become a problem. A run on a bank is an example of where a solvent institution can fail because of a liquidity problem.

Any time a business uses short-term funding for long-term investment, it puts itself at risk.

6. Is management clear-eyed about the challenges?

This reminds of the shareholder letter written by Amazon's Jeff Bezos in 2000, following the dot-com crash. It began:

"To our shareholders:
Ouch. It's been a brutal year for many in the capital markets and certainly for Amazon.com shareholders. As of this writing, our shares are down more than 80% from when I wrote you last year. Nevertheless, by almost any measure, Amazon.com the company is in a stronger position now than at any time in its past."

Bezos then went on to detail how the business was in better shape than the previous year, even though its stock had been belted.

It was clear-eyed and outlined a way forward.

Lessons for investors

Here are my four key lessons from Mauboussin's study:

1. Drawdowns are the price of admission. Large drawdowns aren't an anomaly; they're the norm. You need to be prepared for this reality.
2. Investing is hard and investing in turnarounds is even harder.
3. Predicting which specific beaten-down stocks will be the extreme positive outliers is very difficult.
4. It's much easier to build a portfolio that will survive catastrophic periods and capture the rare massive winners that drive long-term market returns.

James Gruber

Also in this week's edition...

The $3 million super tax has caused an almighty scuffle, but for SMSFs the big question is: what do they do now? **Meg Heffron** outlines the options for those who want to withdraw assets from their funds.

Ron Bird says the super tax debate around indexation and unrealised gains has diverted attention from the real issue: that the tax concessions were always bad policy and remain so. He digs deep into what he terms a "huge waste of taxpayer money" and what can be done about it.

Noel Whittaker enjoyed the drama of the recent Papal Conclave and it got him thinking about many families that go through their own kind of conclave after the death of a parent. A family conclave may be far less public but it can be just as fraught and Noel explores ways to make it a smoother journey.

Super contribution splitting is a common enough strategy though it's not used nearly enough. **UniSuper's Brooke Logan** details its rules and benefits, as well as who it may be best suited for.

It's fair to say that Donald Trump and Federal Reserve Chair Jerome Powell don't see eye-to-eye. Trump has criticised Powell for not cutting interest rates fast enough, and while Powell hasn't bitten back, it's clear he's more process driven and waiting for more data before deciding whether to drop rates further or not. **Neuberger Berman's Brad Tank** says the clash in leadership styles is unfortunate and both men need to find a way for the Government and central bank to work better together.

Gold continues to perform well and the general public is starting to notice. Is it too late to allocate a portion of your portfolio to gold? **Shaokai Fan** says it's not, and goes through the reasons why.

As Warren Buffett departs, it's time to discover and follow some 'new' investment legends. Buffett acolyte Chris Bloomstan may fit the bill. **Greg Canavan** ploughed through Bloomstan's book sized annual letter and found some fascinating insights into what future market returns may look like and Bloomstan's issues with the extensive share buybacks conducted by US companies.

Lastly, in this week's whitepaper, **Allianz** and the National Ageing Research Institute look at the risks facing older Australians with insurance.

Curated by James Gruber and Leisa Bell

Meg on SMSFs: Withdrawing assets ahead of the $3m super tax

Meg Heffron

I know opinion is divided on the ALP's intention to introduce a new tax on those with more than $3 million in super. In one corner, we have those who (rightly) point out that today, $3 million is quite a lot of money and super gets a lot of expensive tax concessions. In the opposite corner, we have those railing against the unfair calculation method – also rightly in my opinion.

While I have nothing new to add to this debate, I have been thinking about another aspect – the mechanics for those withdrawing money from their SMSF if they wish to avoid or at least reduce the tax.

On that front there are a few interesting issues to think about.

Meeting the legal requirements

First, and this is perhaps an obvious point, anyone who wants to take money out of super can only do so if they've met a condition of release. Most people impacted by this tax are over 65 so it's not a problem for them. Anyone between 60 and 65 would generally need to argue they've retired in a superannuation sense (and unfortunately those under 60 are pretty much stuck). It does beg the question – will we see a flurry of retirements? Perhaps not. A quirky aspect of super law is that 'retirement' doesn't always mean giving up work forever.

Simply quitting a paid job after 60 is enough to give full access to whatever super has built up to that point. It's a shame we don't have a census or election coming up because those are excellent ways of taking on legitimate short-term employment that ends. But it can be achieved in other ways as well – any short-term job will do, as long as it's a real one. Don't expect to 'retire' by getting paid for looking after your grandchildren for a bit and then stopping. Even popping back in to work for the family business you handed over years ago would be problematic if it was a manufactured position. But doing a real job for real 'gain and reward' (ie, a salary with tax withheld and super etc) and then ending it (a proper termination with annual leave – if applicable – paid out) does the trick.

It's also worth noting that people over 60 who've had paid employment in the past that's ended (even a casual job at Coles in their teens) can also retire simply by 'winding back a lot'. Anyone in this position who is now working less than 10 hours per week and can honestly, hand on heart, say they never intend to do more than this in terms of paid work in the future can be considered retired. But again, it has to be true. Pretending your high flying, full time, highly paid job can now be done in a day and a half per week would be unwise.

Benefiting from the super tax rules

The next issue of course is to sell or transfer assets to get money out of super. For many people with large SMSFs, this is often a property asset that will be transferred to another family member or entity.

One of the happiest groups in this whole debacle will definitely be State Governments collecting an unexpected windfall in stamp duties as families move their assets around!

But when it comes to the ***super fund's*** tax treatment, this is curiously one area where SMSFs have an unexpected advantage.

Inevitably, any large payments out of super in response to this tax will usually come from a member's accumulation account rather than their pension.

In an SMSF, we're fortunate in that pension funds pay capital gains tax on a 'proportionate' basis. In other words, even though we know the asset being sold or transferred is going to reduce the member's accumulation account, the capital gain still gets taxed as if a *proportion* of it was coming from a pension account.

Consider this example: Lilly has $5 million in super – a $2 million pension and $3 million accumulation account in her SMSF. She's the only member.

She intends to withdraw $2 million from her accumulation account to get her balance down to around $3 million. Even though she knows she doesn't actually have to take any action until 30 June 2026 (the first date her balance will be checked against $3 million for this tax), she wants to do it as soon as possible.

To get the money out of super, she'll sell some assets in her SMSF and realise a $300,000 capital gain. Her fund has a pension so each year it gets an actuarial certificate that provides an important percentage: this is the proportion of the investment income that is exempt from tax. Her actuarial certificate for 2024/25 says that the magic number is 40%. (While I would love to say we actuaries do very complex maths to work this out, in fact we don't. It's basically: what's the average pension balance over the year vs the average balance of the fund as a whole? In Lilly's case, if nothing much has changed this year, her pension of around $2 million represents around 40% of her $5 million fund).

The beauty of this calculation is that even though Lilly's fund is selling assets to take money out of her accumulation account, the capital gain she realises in the process is still 40% exempt from tax. Only the remaining 60% ($180,000 being 60% of $300,000) is subject to tax. Super funds get to discount their gain by one third so the fund would only pay $18,000 tax on this sale.

That wouldn't happen in a non SMSF – any capital gains realised on money taken from her accumulation account would all be taxed. The tax bill would be more like $30,000 (ie 15% tax on 2/3rds of the capital gain).

Of course, this 'proportioning' approach for funds like Lilly's has downsides too. She can't choose to specifically sell 'pension' assets and have those realised CGT free. But it does seem to be a quirky SMSF benefit in this particular scenario.

Watch the timing

I've written before about one extra consideration Lilly should keep in mind.

Her actuarial percentage for 2024/25 is likely to be around 40% even if she withdraws a lot of money out of her accumulation account 'now' (June 2025). That's because something happening right at the end of the year doesn't change the average over the whole year very much.

But think about her fund's percentage in 2025/26. It will be closer to 66% (her $2 million pension will remain, but the total fund will now only be around $3 million). It would be much better for Lilly to have that higher percentage when her capital gains are being realised!

Believe it or not she could achieve this if she held off taking any action for a month or so. If she sells assets and transfers money out of super in July 2025 (rather than June 2025), the $300,000 capital gain will be taxed based on her actuarial percentage for 2025/26. This will be around 66% because for most of the year her fund will only have $3 million. In other words, only around $100,000 of the $300,000 capital gain would be taxed ($300,000 less 66%). This time, the tax bill would be around $10,000.

Meg Heffron is the Managing Director of [Heffron SMSF Solutions](), a sponsor of Firstlinks. This is general information only and it does not constitute any recommendation or advice. It does not consider any personal circumstances and is based on an understanding of relevant rules and legislation at the time of writing.

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The huge cost of super tax concessions

Ron Bird

We almost never discuss superannuation in terms of its fundamental rationale: encouraging individuals to achieve their optimal consumption pattern over their lifetime. Superannuation exists to provide for consumption during the years when individuals no longer have a regular income. The case for mandatory superannuation is that, left to their own devices, individuals may not save enough to meet their consumption needs in retirement.

Over 30 years ago, we established a superannuation scheme with ever-increasing mandatory contributions, and with both contributions and earnings being taxed at preferred rates. It is interesting to contemplate why such tax subsidies were deemed necessary when individuals had no option but to contribute. Those involved in the establishment of the scheme have indicated that these subsidies were a carryover from what existed at the time and their continuation was regarded as necessary to gain support for the legislation.

How has superannuation fared?

Now, 30+ years on, how has this worked out? It is pointless to answer this question in the context of the average individual, as the impact of superannuation varies for each of us. Let's start with the wealthy (say the top third), for whom superannuation has provided a tax haven to invest as much of their savings as possible. These discretionary contributions, on top of the already substantial mandatory contributions, have resulted in the wealthy accumulating superannuation balances well beyond what is required to meet their consumption needs in retirement. Consequently, these individuals are not depleting their superannuation balances in retirement, leading to ever-increasing large estates being passed on to the next generation.

From a policy perspective, how has mandatory superannuation with significant tax incentives fared? It has failed miserably. Modelling shows that for our wealthy group, mandatory superannuation was never necessary to provide for their retirement, much less to provide them with huge tax incentives to do something they would have done anyway.

Are these needless tax subsidies significant enough to be concerned about? Yes, they currently cost taxpayers about $50 billion each year. Recognising that left unabated, these tax subsidies will grow to 2.5% of GDP by the early 2060s. At the same time, the aged pension is forecasted to represent 2% of GDP, down from 3% when mandatory superannuation was introduced. This suggests the current net annual cost of the tax subsidies is around $40 billion, growing to over $110 billion by 2060.

The tax subsidies provided in superannuation have always been bad policy, representing a waste of taxpayers' money. However, they also play another important role as a reverse Robin Hood. The poorest group (say the bottom third by wealth) is potentially disadvantaged from a tax perspective by being required to contribute to superannuation. This is recognised by providing those with annual earnings of less than $37,000 with a $500 government contribution to their superannuation to negate any tax burden caused by compulsory contributions. Incidentally, our modelling shows that this $500 is inadequate to offset the tax burden in many cases, leading us to conclude that our poor group effectively receives none of the tax subsidies.

Hence, we conclude that there are two significant issues with our superannuation scheme from a policy perspective. First, it is a waste of taxpayers' money as it encourages excessive contributions to retirement savings. Second, almost all of the tax subsidies flow to the wealthy, further distorting our income distribution.

What's the solution?

The question then becomes, what can the government do about this situation? The answer seems obvious: reduce or eliminate the tax subsidies and/or redirect them to those in greater need. However, there is a problem with the government attempting to do this—it will hurt them at the ballot box. To see this, we need look no further than the 2019 elections, which Bill Shorten lost largely due to proposed tax changes that were viewed as negatively impacting superannuation.

Of course, the negative impact of any proposed tax changes on the popularity of a government depends not only on the legislation itself but also on the existence of a group that will actively lobby against it. We have created such a group with superannuation, where an ever-expanding industry's revenue stream (and personal earnings) is linked to further expansion of superannuation. This is evident in the current debate on the Div 296 tax, which represents a small step by the government to reduce the tax subsidies flowing to those with excessive superannuation balances. The group targeted by the Div 296 tax represents a major source of income to the industry, whose incentives to kill the legislation are further fuelled by the possibility it will be the precursor for further changes that will negatively impact the industry.

Is the Div 296 tax a good starting point for targeting these tax subsidies? Probably not, as it is far too convoluted, although it does target those who benefit most from the needless subsidies and who least need the wealth for its intended purpose (funding consumption). The fact that it has features such as a ceiling that is not indexed and that it captures unrealized capital gains provides the industry with targets to attack the legislation and divert attention away from the key issue: the great waste of taxpayers' money attributable to the tax subsidies.

Where does this leave us? With a superannuation scheme that fails us in many ways, one of which is the needless waste of taxpayer funds. This point is not lost on the government, which sporadically proposes legislation aimed at achieving small improvements. When it does so, the legislation is subjected to much criticism from the industry, generating sufficient unrest among voters that the government backs off. We are just stuck with bad policy.

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

How to avoid inheritance fights

Noel Whittaker

Wasn't it fascinating to watch the papal conclave over recent weeks? The producers of the movie *Conclave* must have been counting their blessings, as viewers were drawn to their fictionalised version just as the real event was unfolding.

It made me think that many families go through their own kind of conclave after the death of a parent. There might be a Will appointing an executor — hopefully — but what if that person is no longer suitable, perhaps due to ill health, estrangement, or simply being overwhelmed?

The papal conclave lasted just two days and involved 133 highly educated and experienced Cardinals (two were unwell). Throngs packed St Peter's Square, and millions watched online. A family conclave may be far less public — but it can be just as fraught. Someone has to arrange the funeral, draft the death notice, and write the eulogy — often amid simmering tensions. These decisions can be especially sensitive in blended or second families, where loyalties and histories collide.

Then comes the hard stuff: dividing sentimental items like photos or heirlooms, clearing out the family home, deciding whether to sell or retain investments — all while grieving. And many of these decisions have tax or Centrelink consequences. Adult children, who may never have worked together on anything, are suddenly forced into joint decision-making under stress. It's a perfect storm.

I recently spoke to Donal Griffin of Legacy Law in Sydney — a highly experienced estate lawyer — and he made an excellent point: "These difficult times are usually better when there are no surprises, and the family has done a fire drill. That way they understand the roles, expectations, and plan. It might seem awkward to organise, but it's far better done when emotions are lower. And the parent can even have input into what happens after they've gone."

Donal has written a book I highly recommend called *Be A Better Ancestor*, which is a powerful reminder that our lives are just one link in a much longer chain. The idea is to leave things better than we found them — to anticipate problems and normalise difficult conversations. As Donal puts it: "My clients get great peace of mind from facing up to these inevitable events. Hiding from them just creates more fear. I encourage families to work together while everyone is still alive and alert — and where necessary, bring in an independent executor or informal mediator to head off conflict. No one likes surprises here."

It reminded me of my own book, *Wills, Death & Taxes Made Simple*, which covers all of this in plain English — from powers of attorney and advance health directives to who pays tax on death benefits. One of the book's strongest messages is that planning ahead avoids problems later. The tools are all there — testamentary trusts, super nominations, tax planning — but the real key is communication. A beautifully written Will can be a disaster if no one knows why decisions were made or if beneficiaries feel blindsided. As I often say, the best estate plan is one where everyone knows what to expect.

That's why I like Donal's idea of a 'trial conclave' — a family meeting where key issues are discussed while everyone is still calm and clear-headed. It might involve appointing someone other than a child as executor or agreeing in advance what happens to the family home. Yes, it may feel awkward at first, but it can bring surprising relief. The deceased may even want to explain their reasoning while they're still around, which can avoid bitter arguments later.

The other benefit is that it allows time to identify practical hurdles: maybe one sibling lives overseas, another has health issues, or there's a child with special needs who'll require ongoing support. These are the kinds of situations where a thoughtful estate plan — and a bit of rehearsal — can make all the difference.

So, my advice is this: have a trial conclave before the real one. It's not morbid — it's smart. That way, when the time comes, your family can be present to honour your life, not consumed by conflict. After all, don't we all hope to rest in peace — and leave peace behind us?

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noel@noelwhittaker.com.au.

Super contribution splitting

Brooke Logan

Couples looking to maximise their joint savings may benefit from super contribution splitting depending on their circumstances and goals.

Super contribution splitting can be a suitable strategy when one member of a couple has a higher super balance than the other and/or is earning a higher salary and receiving a greater amount of employer super guarantee contributions.

There are different reasons why you might use it, your financial adviser will be best placed to advise you.

How does contribution splitting work?

Contribution splitting allows you to split your before-tax (concessional) contributions to super with your spouse, which includes married, de facto and registered relationships. These comprise, but are not limited to, employer super guarantee contributions, contributions made under a salary sacrifice arrangement and personal contributions by an eligible person which may be claimed as a tax deduction.

Not all contributions qualify, the following contributions can't be split:

- after-tax (non-concessional) contributions
- rollovers
- super lump sums paid from a foreign super fund
- contributions to a defined benefit account.

The age of the member splitting the contribution is irrelevant, but your spouse must be under age 65. If they have reached preservation age at the time of the split, your spouse must declare they do not meet the retirement condition of release. Once received by the super fund, the contributions are preserved until your spouse meets a condition of release.

The maximum amount of contributions that can be split annually is the lesser of:

- 85% of before-tax contributions, and
- the before-tax (concessional) contributions cap, including any unused concessional contribution cap from the last five years (if eligible).

Contribution splitting doesn't reduce the amount of concessional contributions which count towards your concessional contributions cap in a financial year and won't get rid of an excess contribution. Importantly, while the contributions are transferred to your spouse's super, they still count towards your cap.

Always check with your fund, not all super funds offer contribution splitting and some funds charge a fee.

What are the benefits of splitting?

Couples may use super contribution splitting for different reasons.

1. You can use it as a strategy to keep your spouse's super below $500,000. This could allow them to take advantage of their unused concessional contribution cap from the past five years to make a higher pre-tax contribution.

2. You can use spouse contribution splitting to even out account balances (as far as practicable). With the transfer balance cap placing a limit on the amount of super you can move into a tax-free retirement income stream, splitting contributions from a spouse with a higher balance, particularly if it is done over several years, can assist with both parties maximising their transfer balance cap. This could also be beneficial if the proposed Division 296 tax (additional 15% tax on super balances over $3 million) or a similar concept is legislated, placing an additional tax on high balance super accounts.

   Example

   Stanley, age 54, has $1.3 million in super. He earns $250,000 pa, plus super guarantee. His spouse Evie, age 54, has $500,000 in super, and earns $70,000 pa, plus super guarantee.

   Over the course of the next 10 years, Stanley splits the maximum concessional contribution to Evie. At age 64, assuming no other contributions, and a net earning rate of 5.28%, their super balances are projected to be $2,000,000 for Stanley and $1,235,000 for Evie. This allows them to retire and each transfer their respective super balances into tax-free pensions (based on current legislation).

3. When one member of the couple is older, the younger spouse could split their super contributions to the older spouse, who may be able to access their benefit at an earlier date.

4. There may also be advantages in splitting contributions with a spouse who is younger. For example, it may temporarily reduce the value of your combined assets under the social security means test and could result in greater Centrelink or DVA pension entitlements.

5. For a lower income or non-working spouse, contribution splitting can help ensure they have sufficient funds to pay premiums for Life and Total and Permanent Disability Insurance cover they hold in their super fund.

How do you elect to split and when does it apply?

The superannuation contribution splitting process is retrospective and usually you can only elect to split contributions made during a financial year once that same financial year has ended and within the next 12 months. However, if your entire benefit is to be rolled over, transferred or cashed out, you can request that your contributions be split during the financial year in which they are made.

Importantly, if you intend on claiming a tax deduction for any personal deductible contributions that you want to split, you must lodge the notice of your intention to claim a tax deduction before requesting that the contributions be split.

Example

Lachie is 67 and retired in March 2025. In addition to his employer super guarantee contributions of $15,000, he made a non-concessional contribution of $15,000 in December 2024, on which he intends to claim a deduction. He would like to split the maximum contributions he can to his wife Bree, age 60, and roll his super into an account-based pension to generate a tax-free retirement income stream as soon as possible.

The timing of Lachie's strategies is important as follows:

1. *Lodge a 'Notice of intent to claim or vary a deduction for personal super contributions' on the $15,000 personal contribution, and receive acknowledgement from the super fund.*
2. *Next, complete a 'Superannuation contributions splitting application' to request the maximum contributions of $25,500 ($30,000 x 85%) made in the 2024-25 financial year be split to Bree. This can be done in the same financial year, as his entre balance is to be rolled over. Bree works part-time and is able to declare she is not permanently retired.*
3. *Having completed both these steps, Lachie can now rollover his super to a retirement income stream.*

If Lachie applies for the Age Pension, the contributions split to Bree will not be assessable under the assets or income test whilst maintained in her accumulation account and may increase his potential benefit.

Get the right advice

Contribution splitting can be valuable under the right circumstances, it's not a 'one size fits all' strategy and its appropriateness will depend on the couple's personal circumstances and goals. Knowing the rules and benefits can help you decide whether its right for you. What works for one couple may not work for another, and as everyone's circumstances are different talk to a financial adviser about your options.

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

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Trump vs Powell: Who will blink first?

Brad Tank

Futures markets suggest we'll get just one rate cut from the U.S. Federal Reserve this year. That's not surprising: The latest U.S. consumer and producer price inflation data has been relatively cool, and Fed Chair Jerome Powell has been sounding hawkish. He has even hinted at reconsidering the treatment of the 2% inflation target as a longer-term average, the one thing currently allowing some tolerance of above-target data.

President Donald Trump is not happy. After criticising "Too-Late" Powell through much of April, the president had to clarify that he isn't going to remove him from office. Nonetheless, he still thinks the Fed should "lower rates like Europe and China have done" (the European Central Bank cut on April 17, the People's Bank of China cut last week), and that Powell is a "total stiff."

The name-calling is revealing, and not just because it underlines the Trump administration's unconventional ways. The office of U.S. president is endowed with broad executive powers – and this president is testing even these limits. By contrast, numerous Fed officials, many with voting power, have been lining up to explain why it was best to "wait and see" before cutting rates. The Fed chair – hemmed in by process, meticulously chosen words and consensus decision-making – is always going to look like an unresponsive "stiff" to President Trump.

At the top of the U.S. fiscal and monetary authorities, investors face an unprecedented clash of leadership styles.

Process and transparency

When Paul Volcker was tackling runaway inflation in the early 1980s, process and consensus was not the name of the game. His shock therapy – raising rates to 20% and inducing recession – was decisive, unbending and unpopular.

His successor as Fed Chair, Alan Greenspan, began to introduce the elements of process and transparency that we know today, such as published minutes, interest-rate projections and qualitative forward guidance. More recently, Ben Bernanke's Fed formalized the 2% inflation target. When rates were stuck at zero after the Global Financial Crisis and during the COVID-19 pandemic, the process and public commentary effectively *became* the central bank's policy.

In Greenspan's view, process, consensus and transparency would help protect the independence that Volcker had to fight for, but they would also give capital allocators and investors more certainty, taming the violent cycles that Volcker had to deal with, bringing down the cost of capital and making the economy and its markets more efficient.

Decisive unconventional action, in collaboration with other federal agencies and other central banks around the world, is still possible in a crisis. But the central bank's day-to-day activity is now deliberate, consensual and jealously independent – and, as an inevitable result, somewhat reactive. "Too late," if you take the view of President Trump. Predictable and reassuring, if you're more technocratic.

Move fast and break things

The Trump administration is more 'tech bro' than technocratic. It likes to move fast and break things in pursuit of its strategic aims.

In economic terms, those aims might be summed up in Robert Lighthizer's 2023 book, *No Trade Is Free: Changing Course, Taking on China and Helping America's Workers*. Lighthizer sees the post-World War II era as an anomaly and wants the U.S. to embrace the historical use of trade policy and tariffs: protecting and developing certain industries;

reciprocating and retaliating against other countries' levies; and raising revenue. In his thoughts about China, he also advocates using trade policy to advance geopolitical ends.

Because it is so unconventional, this strategy necessitates a concentration of trade policy in the executive. It also bypasses the multilateral and technocratic trade architecture built over the past 80 years, envisaging bilateral negotiations undertaken and overseen at the highest administrative levels.

In our view, investors should take care not to mistake the chaos of the past 125 days as a lack of strategy. Just as President Trump's first term effected a paradigm shift in the way other political parties and other countries thought about China, we think this term is likely to leave us with more bilateral, more protectionist international relations, regardless of who wins the next U.S. elections.

The chaos comes not due to lack of strategy, but due to the administration's tactic of testing practical limits in pursuit of its strategy. In crude terms, it is figuring out what is possible as it goes – as opposed to assuming what is possible based on some informed consensus and adapting the strategy to fit.

Bubbles

Whereas Powell's leadership style is designed to minimize the cost of capital, Trump's style seems to raise it, in the form of higher stock market volatility, wider credit spreads, climbing Treasury yields and a rating agency downgrade.

As investors, however, we don't automatically side with the Powell style. Leading by consensus at central banks has arguably resulted in reflexively low real interest rates and artificially low volatility in both financial markets and credit cycles. That, in turn, has allowed successive bubbles to be inflated in technology stocks, U.S. real estate and government debt. A little more mystery around Fed policymaking might have mitigated or even prevented those bubbles.

Should that be how we think about the Trump administration's tactics? Recent policy uncertainty has made U.S. government debt less affordable and the U.S. dollar weaker. This could be seen as needlessly raising the cost of capital. But it could also help to deflate a multidecade bubble in debt-fueled U.S. consumption and force a return to a more sustainable manufacturing- and exports-based economy.

While that explanation fits with the apparent long-term strategy, it doesn't follow that these are sensible tactics. Uncertainty and risk are healthy in small doses. Decisiveness can be powerful when tempered by informed consideration. But sheer disruptiveness could, in itself, lead investors to demand higher risk premia than are necessary to achieve the strategic aims.

President Trump and Chair Powell sit at opposite policymaking poles, and both could take a lesson from the other—not least because, ultimately, the fiscal and monetary authorities need to work together.

Brad Tank is Co-Chief Investment Officer and Global Head of Fixed Income at Neuberger Berman, a sponsor of Firstlinks. This material is provided for general informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. You should consult your accountant, tax adviser and/or attorney for advice concerning your own circumstances.

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Credit cuts, rising risks, and the case for gold

Shaokai Fan

Moody's downgrade of the United States' credit rating to AA1 last month saw the last of the three major agencies drop America one rung below the top ranking.

Fitch Ratings issued a similar downgrade around 18 months earlier when it cut the US to AA+ from AAA in August 2023. Standard & Poor's lowered its rating to AA+ back in 2011.

The latest major credit rating downgrade coincides with several headwinds for the US economy. For years, many economists have voiced concerns about the size of the nation's federal debt burden. The Trump administration's recently enacted *One Big Beautiful Act (OBBA),* including substantial tax cuts, further reinforces the view that the US budget deficit will likely remain around 7% of GDP. This remains well beyond the circa 3% target many believe is needed to stabilise the nation's debt-to-GDP ratio.

At the same time, there is the very real prospect of the US Federal Reserve reversing direction and hiking interest rates. This further ratchets up concerns about America's persistently high national debt.

More downside ahead

Until calm is restored on the political and economic policy fronts, volatility is likely to stay elevated across financial markets – both equities and bonds – which in our view supports an allocation to gold.

Focusing on equities, given the bruising moves in April, investors could be forgiven for thinking stocks must now be factoring in a lot of downside risk. In fact, US stocks are barely out of the starting gate when it comes to pricing in an economic downturn, as the US market was highly valued to begin with.

On all common valuation metrics, the S&P 500 remains more expensive than historical averages (Table 1). In this environment, as we entered 2025, expectations for the US economy were at their highest compared to the previous two years and there was widespread belief that strong growth and significant asset-price increases would continue in 2025.

And amid the trade onslaught, the probability of a recession has risen substantially. The future trajectory will depend on key indicators such as jobless claims, consumer spending and corporate profits. But a recession would be a particularly tough scenario for equities, and investors should keep in mind that considerable downside would be yet to come for the asset class, leading to greater safe-haven demand, notably gold.

Table 1: The S&P 500 looks expensive

Common valuation metrics of the S&P 500*

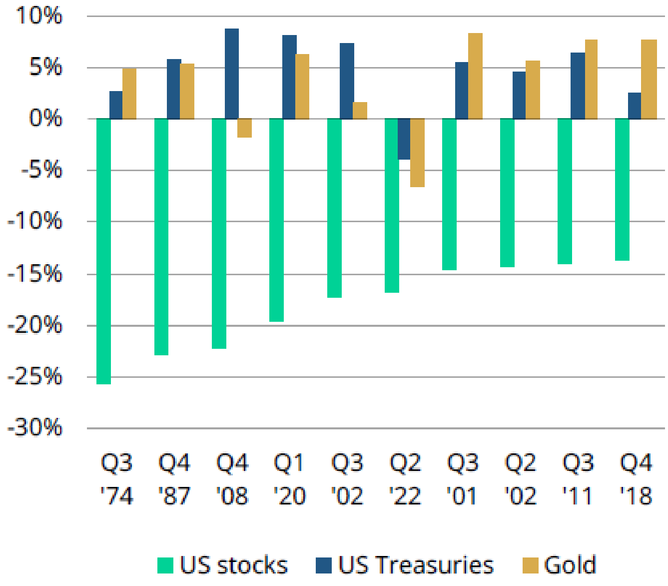
Metric	Current	Average	Min	Max	% above (below) avg	Z-score
Trailing PE	22.6	20.2	10.7	34.4	12%	0.5
Cyclically adjusted PE (CAPE)	33.1	17.6	4.8	44.2	88%	2.1
Price / Sales	2.7	1.7	0.7	3.2	62%	1.8
Price / Book Value	4.5	3.1	1.6	5.2	45%	1.6
Price / Cash Flow	18.0	12.2	4.9	28.8	48%	1.5

*Data from April 1990 to April 2025 except for CAPE, which is from January 1881.
Source: Bloomberg, Robert J. Shiller, World Gold Council

In fact, with few exceptions, gold has been especially effective during these periods of systemic risk, generating positive returns in 8 out of the 10 worst quarters of performance for the MSCI USA index (Chart 1).

Chart 1: Gold provides downside protection

Gold returned positive performance in 8 out of the 10 worst quarters for US equities*



*Data from 31 March 1973 to 31 December 2024.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

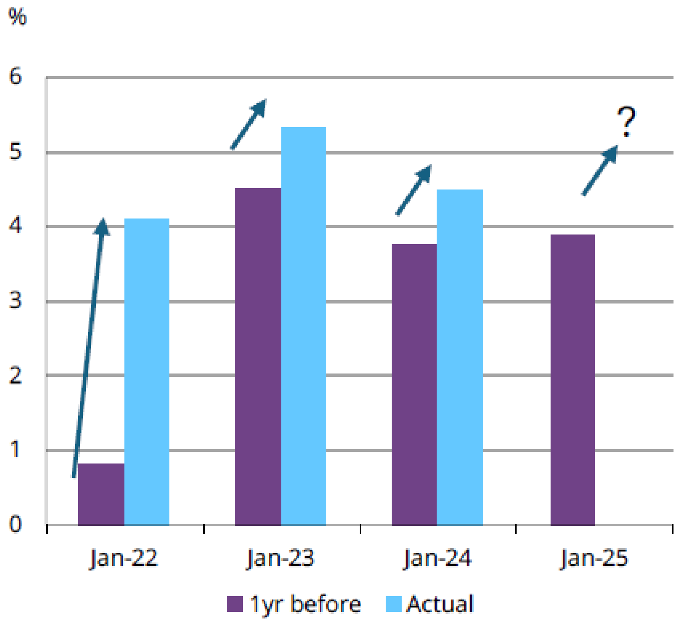
The return of the bond vigilantes?

If one thing is true of the bond market currently, it is that, on the face of it, it looks attractive on a risk-adjusted basis. Current yields are well above long-term returns for many of the global fixed income sub-asset classes, which means that fixed income may be well positioned to deliver robust returns in the period ahead.

But markets have been continuously in a pre-COVID mindset of returning to ultra-low rates, hence under-pricing how hawkish the Fed would be, and we believe these dynamics could continue in the near term (Chart 2).

Chart 2: What if the next Fed move was up?

Fed futures a year before and what actually happened*



*Data as of 31 January 2025.
Source: Bloomberg, World Gold Council

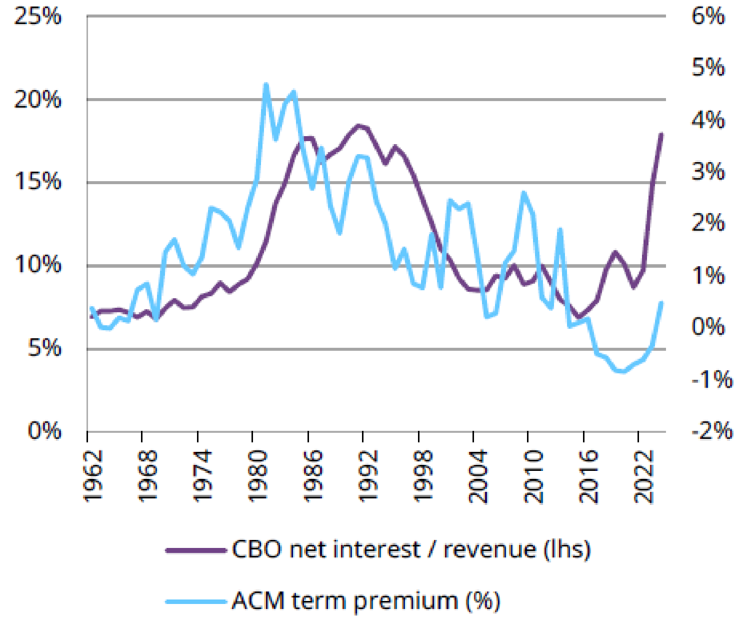
Moreover, the macro environment over the past several months (years) has been such that market pricing of central banks' rates has been volatile. And we see plenty of reasons why yields could continue to be volatile and also come under pressure.

If Trump is successful in the large-scale reshoring of US manufacturing capacity, goods deflation in the US could come under pressure, making the inflation target more difficult to achieve and bond markets will have to take note. Besides, in an increasingly antagonistic geopolitical environment, foreign central banks seem likely to continue shifting their reserve holdings away from Treasuries towards other assets such as gold.

Finally, doubts about the appropriate level of term premia seem only likely to grow (Chart 3). The CBO (Congressional Budget Office) data below look frightening enough as it is – even before including the impact of extending Trump's Tax Cuts and Jobs Act tax cuts.

Chart 3: Is the only way up?

US govt interest payments vs. 10yr term premia*



*Data from 1962 to 2024.
Source: Bloomberg, CBO, NY Fed, World Gold Council

The Fed's big dilemma

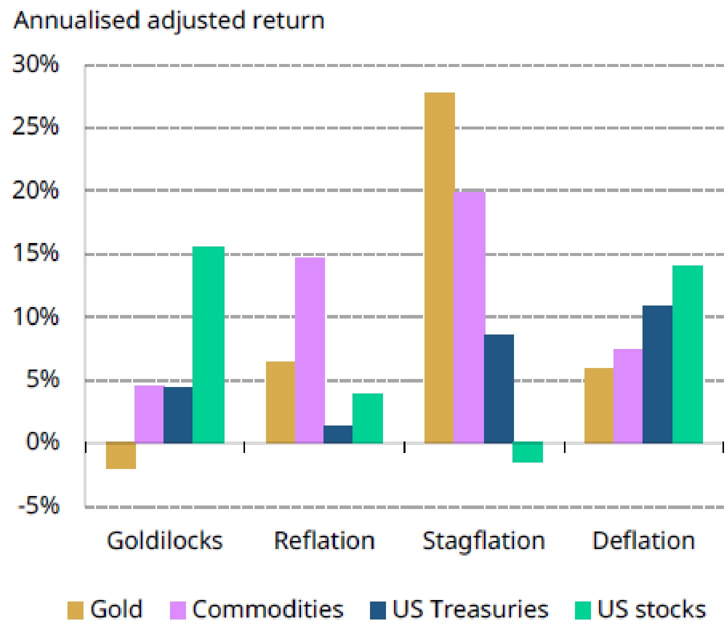
And with tariffs looking likely to produce a stagflationary impulse, the Fed faces a dilemma: should it prioritise controlling inflation, which is set to rise, or support growth, which is expected to decline?

Unlike in 2024, the Fed is less likely to get ahead of any growth concerns. And a reactive Fed typically spells trouble for equities. More broadly, stagflation has historically been detrimental to equity returns and beneficial for gold returns (Chart 4).

All in all, maintaining a diversified portfolio can feel like chasing a moving target in today's rapidly evolving market environment where bonds are now providing less of a diversification benefit than in the past, but also demand a higher portion of investors' risk budgets.

Chart 4: Gold a clear winner in stagflation

Major asset returns per cycle phase since 1973*



*Data from Q2 1973 to Q4 2024.
Source: Bloomberg, World Gold Council

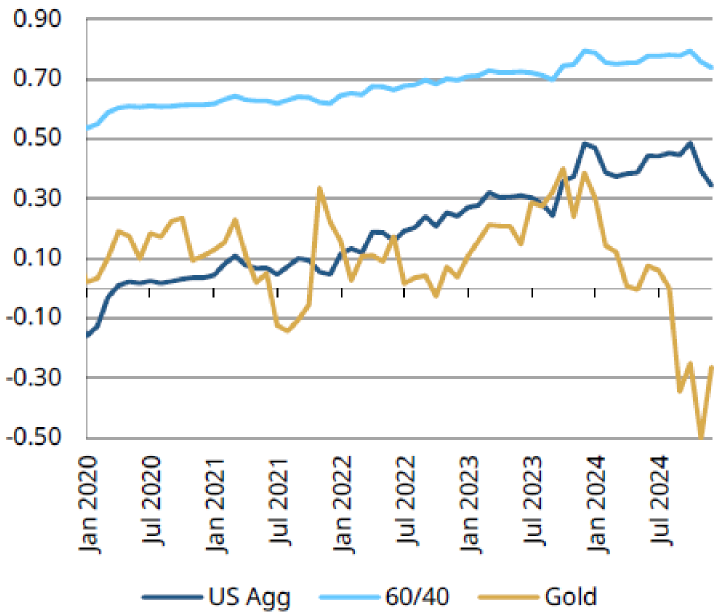
Chart 5 shows that today's 60/40 portfolio beta – its sensitivity to overall market performance – is at among the highest levels in the past five years.

Meanwhile, bonds' beta has also ratcheted higher. Therefore, bonds are now more stimulated by higher levels of overall market risk.

Against this backdrop, we believe investors should consider alternative and complementary assets to high-quality fixed income assets, such as gold.

Chart 5: Bonds have become more sensitive to overall market fluctuations

60/40 portfolio, US Agg and gold's beta to equities*



*Data from January 2020 to 28 February 2025.

Conclusion

The current macroeconomic landscape is characterised by significant volatility and shifting dynamics. This presents numerous challenges for investors seeking stability and diversification.

In fact, maintaining a well-diversified portfolio in this evolving environment necessitates a strategic reassessment and adaptation to mitigate risks. Consequently, we believe investors should explore alternative and complementary assets such as gold.

Shaokai Fan is Head of Asia Pacific ex-China, at World Gold Council, a sponsor of Firstlinks. This article is for general informational and educational purposes only and does not amount to direct or indirect investment advice or assistance. You should consult with your professional advisers regarding any such product or service, take into account your individual financial needs and circumstances and carefully consider the risks associated with any investment decision.

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Buffett acolyte warns passive investors of mediocre future returns

Greg Canavan

Everyone knows Warren Buffett. The guy is 94 years old and has been smashing the market since he was in primary school. But as he steps down from running Berkshire Hathaway at the end of the year, it's time to discover and follow some 'new' investment legends.

There is one Buffett-style investor you may not have heard of. His name is Christopher Bloomstran.

He runs Semper Augustus Investments Group. If you know your tulip bubble history, you'll know the relevance of the fund name.

He started the fund back in 1998. He correctly identified the 1999 bubble and avoided it. As a result, his long-term track record is outstanding. Since its inception, the Semper Augustus fund has returned 11.4%, compared to the S&P500's 8.2%.

That might not sound like much. But as you'll see below, over time it makes a massive difference.

Each year, Chris writes a letter to clients. It's no ordinary letter. The 2024 edition is 168 pages. He published it back in February, and I'm still only about halfway through.

But from what I have read, there are a few very important insights worth passing on.

These insights are for genuine long-term investors who understand value.

By that I don't mean you're a 'value investor'. I mean you understand that your future long-term returns *are a function of the price you pay*.

The higher the price (for a given level of earnings growth) the lower your future return.

In his letter, Chris made this clear in a few different ways.

Peak prices, poor returns

Firstly, he pointed out that in the 25 years since the 1999 secular peak, the S&P500's annual return was 7.7%. That might not seem too bad. But consider that the S&P500 didn't break out to new highs until 2013!

The annualised return in the 11 years to 31 December 2024 was 13.1%. *Nearly all the returns over the 25 years from the 1999 secular peak came in the last 11 years.*

Investing at a cyclical low is much more appealing over the long run. From the August 1982 secular low to the end of 2024, the S&P500 produced compound returns of nearly 20%.

The message is clear: paying high prices for individual investments, or passively via an index, is detrimental to long-term returns.

Chris writes:

> '*We believed stocks were at a secular peak in March 2000, at least in the capitalization-weighted S&P 500 that grew to be dominated by several incredibly overvalued technology, media, telecommunications and dot-com companies. We were correct.*
>
> '*The index spent much of the next 15 years underwater and to this day its returns are way below the long-run return from stocks and way, way below expectations of the day.*
>
> '*At the same time, we also believed in March 2000 that despite the S&P perched at a secular peak, there were a growing number of genuine bargains that would allow an intelligently-invested portfolio to outperform the index over the coming decades. We were also correct.*'

As mentioned, from inception to 31 December 2024, the Semper Augustus fund compounded at an average 11.4% compared to the S&P500 at 8.2% over the same period. Over a long period of time, those few percentage points make a huge difference to overall returns.

At its inception, a $1 million investment in the Semper Augustus fund turned into $16.4 million, and the same investment in the S&P500 turned into $7.7 million.

The $8.7 million difference boils down to paying a sensible price that will deliver adequate returns. It's as simple (and difficult) as that.

Chris reflected on the benefit of launching a fund at the height of a bubble:

> '*...it was a great time if you have a stock market on one hand and a market of stocks on the other...Those patient enough to not react by chasing the bubble fared far better over the subsequent quarter century. Our experience couldn't have been better. Parallels today to the stock market and market of stocks we navigated then are uncanny.*'

Needless to say, with markets at all-time highs at the end of 2024 (and again now), Chris believes investors shouldn't expect too much from future long-term returns.

> '*The S&P 500 is valued to produce disappointing returns over the coming decade and beyond. Valuations in most metrics are in line with those at prior secular peaks over the past century. Despite back-to-back mid-20% returns in 2023 and 2024, given 2022's 18.1% loss, price relative to fundamentals matches or exceeds that of 2021, which we expect will go down as one of the great secular tops.*'

While the US and Aussie markets are expensive again following the recent rebound, it's not a case of prudent investors having to move to cash. There is hope for patient, active investors who are prepared to avoid wildly overvalued index stocks like Commonwealth Bank and invest in appropriately valued but unpopular companies.

But passive investors and index huggers should be prepared for mediocre long-term returns from these levels.

Who cares about capital allocation?

In his letter, Chris also touched on an important but little-known topic: capital allocation. This refers to the ability of a company's management team to create or destroy shareholder value by choosing where to allocate the company's resources.

That is, do management understand the value of their company well enough to know when to issue and buy back stock that will enhance, and not destroy, shareholder value.

The reality is that not nearly enough companies do this well. Banks, for example, tend to buy back shares when capital is plentiful and share prices are high. But in a downturn, when prices are low (and the cost of equity capital is high) they tend to issue shares.

In Australia, thanks to franking credits, dividends represent a big part of the capital allocation pie. Share repurchases don't feature as much.

But in the US, it's the opposite. Management incentive packages are all about options and getting the share price higher so their options are well 'in the money'. As a result, profits go towards share repurchases much more than dividend payments.

Companies also issue shares as a form of employee compensation. This is especially prevalent in the tech world. So you have a situation where, in aggregate, billions of dollars in stock buybacks don't actually reduce the amount of shares on issue. They simply offset the newly issued shares given to insiders.

Chris reckons S&P500 companies pay out around one-third of profits as dividends, with the rest going towards share repurchases. But these repurchases barely offset the issuance of shares that gave '*2% of the average company to insiders each year, paid as options and restricted shares*.'

'...*index companies spent roughly two-thirds of profits purchasing 2.7% of their market capitalization each year, yet only reduced the share count by 0.6% annually. Retained earnings for the index are NOT reinvested at the return on equity but are spent repurchasing expensive shares. Repurchasing shares at high prices destroys capital. Shares bought at today's 25.2x P/E earn just under 4.0% for shareholders, not the index's 19.9% return on equity that one might expect.*'

To reiterate...

Over more than a quarter century, the companies in the S&P 500 spent two-thirds of net income repurchasing shares. They purchased 2.7% of market value on average each year. Over the same quarter century there has been no change in shares outstanding. The transfer of wealth to insiders is beyond comprehension.

To have spent vast sums of earnings on repurchases and not have reduced the aggregate net share count has proven an extraordinary destruction of capital.

The harm was masked by driving prices to record multiples of all fundamental measures of value. When asset prices revert to value, only then will the giant transfer of wealth to insiders be apparent to most.

To be clear, this isn't a warning to get out of the market because the bubble is about to burst. Who knows how long this can go on for?

But it is a gentle reminder that the price you pay drives future returns. The market might look expensive, but that doesn't mean every company in it is. Distinguish between these two things, and you'll be on your way to beating the market over the long term.

Greg Canavan is the editorial director of [Fat Tail Investment Research] and Editor of its flagship investment letter, Fat Tail Investment Advisory. This information is general in nature and has not taken into account your personal circumstances. Please seek independent financial advice regarding your own situation, or if in doubt about the suitability of an investment.