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## Editorial

With stock markets near record highs, everything is going swimmingly – at least on the surface. Dig a little deeper, though, and it's apparent that markets are behaving very differently to how they have in previous decades.

For one, the 'exceptional' US stock market is getting trounced by the likes of Europe. Also, during the March/April stock correction, US bonds – a normal safe haven in share market dips – fell. So too did another typical safe haven, the US dollar. Meanwhile, gold and bitcoin have continued to soar.

For two Wall Street legends, Paul Tudor Jones and Jeffrey Gundlach, these events signal a regime change and investors need to adjust their portfolios accordingly. What's remarkable from two recent interviews that they did on Bloomberg is how much their views overlap, despite their different backgrounds and skillsets.

**The US is caught in a debt trap**

Tudor Jones, the hedge fund billionaire, made his name by shorting stocks into Black Monday in 1987 and the Japanese market in 1990.

He says the US is now caught in a debt trap – a vicious circle of higher borrowing costs and larger deficits sending the stock of debt on an uncontrolled upward spiral.

Tudor Jones says one way to address the problem is to reduce the budget deficit by increasing taxes and cutting spending, but America doesn't want to do that. And it's easy to see why given the economic pain it would involve.

Tudor Jones says that to stabilize the current US debt to GDP ratio of 124%, the government would have to balance its budget and cut back on about US$900 billion in spending. He broke down a scenario for how this could happen:

- If short-term rates were cut under a new Federal Reserve Governor, it could reduce 10-year rates by 100 basis points, equating to around US$175 billion in saved interest costs. That leaves a gap of US$725 billion.
- Assume the rest will come from a 50/50 split of tax hikes and spending cuts. If you do a 6% blanket cut across all government spending programs, that would save US$360 billion.
- The other half of the money could come from raising the top income rate from 37% to 49%, introducing a 1% wealth tax annually, and raising the capital gains rate to 40% from the current maximum of 20%.

Understandably, Tudor Jones believes America won't go down this road. Instead, it will opt for a less painful route, by attempting to inflate its way out of the problem.

This involves getting interest rates below the rate of inflation, otherwise known as negative real rates or financial repression. Higher inflation means the current stock of debt would be worth less in future. Do this for long enough and the debt to GDP ratio would decline to more manageable levels.

It's been done plenty of times before. The US did it in the 1950s when real rates were negative for much of the decade. And Japan is trying to do it now by being reluctant to raise rates even though inflation there is spiking higher.

Tudor Jones believes this is what Trump will attempt too. And his playbook is obvious. Trump has repeatedly called for rates to come down by up to 100 basis points and threatened Federal Reserve Chair Jerome Powell if he doesn't follow through.

Tudor Jones thinks Trump will appoint an "uber dovish" Fed Reserve Chair when Powell's term ends in mid-May next year. That Chair will do Trump's bidding and drop rates swiftly towards 3% from the current range of 4.25-4.50%. That should be enough to turbocharge both the US economy and inflation. The ultimate objective will be to run inflation hot, so it remains above interest rates for a long period of time, thereby reducing the country's debt burden.

**The 2 easy trades**

Given this scenario, Tudor Jones suggests there are two easy trades over the next 12-18 months. First is that short term rates will be dramatically lower, leading to steepening in the yield curve (with long-term rates being a lot higher than short-term rates). The second is that lower rates will lead to further falls in the US dollar.

**Constructing a long-term portfolio for the new regime**

Tudor Jones is sceptical that financial repression will work this time. That's because at some point, and he doesn't know whether that will be in 1, 2 or 10 years, the bond market will break, resulting in much higher bond yields.

Due to this, he says building a long-term portfolio is difficult. He would own shares given the inflation he sees ahead, although higher bond yields will eventually hit stock price-to-earnings multiples.

He especially likes gold, commodities, and bitcoin (1-2% of a portfolio) for inflation protection.

**QE is coming**

Jeffrey Gundlach is one of the world's best-known bond managers and though he sees markets through a different lens from Tudor Jones, their views are quite similar. Like Tudor Jones, Gundlach sees the US debt situation as unsustainable and that a bond market revolt is nearing.

Gundlach is remarkably bearish on the near-term outlook for bonds given that he's a bond manager. He says recent market action is signalling that long-term Treasury bonds are no longer a "legitimate flight to quality asset."

He says bond vigilantes will send long-term bond yields towards 6% at some point soon. At those rates, government debt will become unsustainable and that will lead to a policy pivot. Gundlach expects quantitative easing will be introduced to get long-term bond yields down.

**Markets feel like 1999**

Gundlach isn't enamoured by the outlook for stocks, either. He says the US market is more overvalued now than it was before the sell-off in April because earnings estimates have since come down.

He says the stock market feels a lot like 1999 or even 2006-2007. He implies that the bubbles back then were obvious in advance though they took a long time to play out. This time could be similar, he says.

Gundlach believes that AI stock boom is overdone. He likens it to the advent of electricity in 1900. It was met with great enthusiasm and stocks were bid up. But electricity stocks started underperforming non-electricity stocks in 1911, and they've been underperforming ever since. And that's despite electricity being an amazing invention that has since transformed the world.

**Private assets are the new CDO market**

The other aspect that worries Gundlach is the private asset market. He sees massive over-investment in this space and likens it to the notorious CDO (collateralized debt obligations) market which below up in 2007-2008.

Gundlach says private assets share two characteristics with CDOs: illiquidity and complexity. And he believes the recent investment moves by Harvard University are a warning sign for the sector.

Recall that Harvard's $53 billion endowment has tapped the bond market twice for money. And it's announced that it intends to sell some of its private equity interests at a discount.

Gundlach says it's staggering that Harvard doesn't have enough money to pay for its operating expenses and it shows the pressure that those heavily invested in private assets are under.

He says public credit has started to outperform private credit and that's a sign of things to come. And Gundlach expects more cases of forced selling by big holders of private assets such as Harvard.

**What would Gundlach own?**

Given Gundlach's bearishness, where is he putting money then? For his funds, he's mainly sticking to investment-grade credit. He's also introducing foreign currencies for the first time given his pessimism on the prospects for the US dollar.

Personally, Gundlach has been a long-term holder of gold, which he describes as "the flight-to-quality asset", replaced bonds.

As for the long-term, he thinks India is a great bet. He says India has a similar demographic profile to what China had 35 years ago. And like China then, it has many problems, including with its legal system and corruption, though these issues are fixable.

**My two cents**

There are some large gaps in Gundlach's India thesis. For instance, India has never been a manufacturing powerhouse like China was back then. Interestingly, India skipped the normal stage of growing from a manufacturing dominant economy to a service-based one.

Also, his analogy is odd given that though China's stock market has performed miserably over the past 35 years, despite the huge leap in economic growth.

Put simply, I don't think India is anything like China was then. That said, like Gundlach, I am still reasonably bullish on the long-term outlook for India with its favourable demographics and the quality of its listed companies.

As for the other views of both Gundlach and Tudor Jones, their take on the US being caught in a debt trap seems compelling and the potential for a bond market ruction makes sense, as does the possibility of QE. The market implications of this also appear logical - lower US short-term rates, higher inflation, and a lower US dollar.

The problem, as they acknowledge, is one of timing – it could happen this year, or in 5-10 years.

For long-term investors, Tudor Jones and Gundlach's opinions are valuable to help identify potential market risks as well as to ensure that your portfolios can withstand whatever is thrown at them in future.

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In my article this week, I look at whether young Australians will be better off than their parents via a new report that digs into they key drivers behind the generational wealth divide.

**James Gruber**

**Also in this week's edition...**

Three weeks ago, ANU Emeritus Professor Ron Bird outlined why he thought that the tax concessions for superannuation totalling $50 billion were a waste of taxpayer money. This week, **Tony Dillon**, takes issue with the $50 billion figure from Treasury, suggesting it's grossly exaggerated.

Not sure about you but I enjoy reading the annual lists of Australia's richest people. It turns out that so too does **Tony Kaye** at **Vanguard**, though he reckons that many of the wealthy could have done better in recent years by employing simpler investment strategies.

Would a corporate tax cut boost productivity in Australia? **Zac Gross** says while overseas evidence in favour of business tax cuts is compelling, it's less clear cut here.

For me, it does seem that V-shaped market recoveries have become more common versus 20 years ago. Is it real or imaginary? **Peter Weidner** and his team at **Man AHL** - a **GSFM** affiliate - run the numbers and give us an answer.

Many asset classes this year aren't behaving as they've done in recent decades. That's especially the case for bonds, where traditional safe havens have proven anything but, and 'riskier' elements of the market have displayed resilience. **Peter Kent** says asset allocations need to adjust to this new paradigm and portfolio diversification has never been such a virtue.

As the July school holiday break nears, **UniSuper** has some investment classics to put onto your reading list. The books offer lessons in investment strategy, financial disasters, mergers and acquisitions, and risk management.

Lastly, in this week's whitepaper, **Fidelity** is rethinking its equity positioning in a de-globalising world.

**Curated by James Gruber and Leisa Bell**

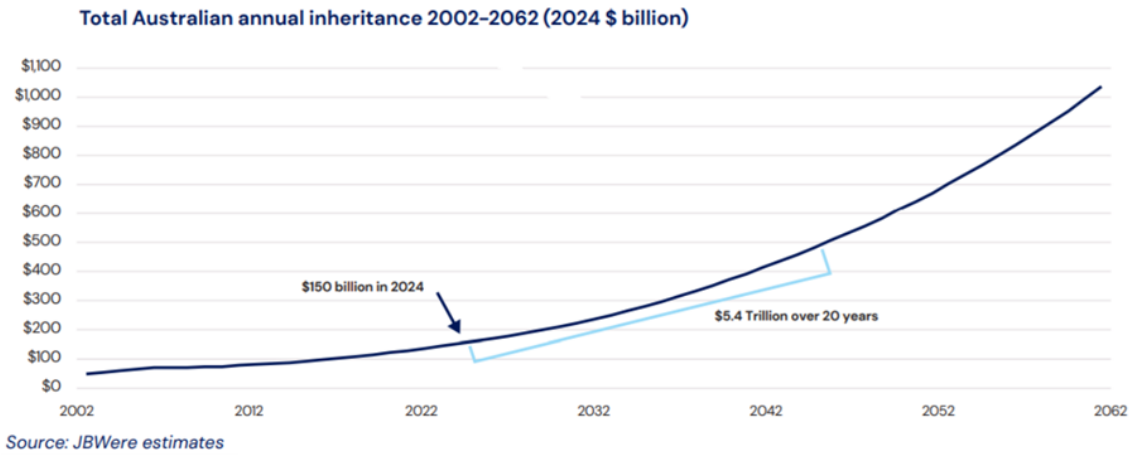
## Will young Australians be better off than their parents?

### James Gruber

There's an unspoken pact in Western countries including Australia that each new generation will be better off than the last. Will that be the case this time around?

There's an existential angst among young and old today that our kids will be worse off than their parents. On the surface, the angst seems hard to fathom. After all, Australia is wealthier than ever. According to UBS, our wealth grew 11% in 2024, and we rank second for median wealth per adult in the world. [See table, next page]

It's true that much of this wealth resides with older Australians. Yet, JBWere estimates that some $5.4 trillion of this wealth will be transferred to younger generations over the next two decades.



*Source: JBWere estimates*

What's the problem, then? Well, dig a little deeper and the prospects for our young may be more tenuous.

Top 25 in average wealth per adult (USD)

Numbers in parentheses indicate the position held in 2023

| | | 2024 |
|---|---|---|
| Switzerland (1) | 687,166 | 1 |
| United States (4) | 620,654 | 2 |
| Hong Kong SAR (3) | 601,195 | 3 |
| Luxembourg (2) | 566,735 | 4 |
| Australia (5) | 516,640 | 5 |
| Denmark (6) | 481,558 | 6 |
| Singapore (8) | 441,596 | 7 |
| New Zealand (7) | 393,773 | 8 |
| Netherlands (12) | 370,697 | 9 |
| Norway (9) | 368,410 | 10 |
| Canada (10) | 365,953 | 11 |
| Belgium (11) | 349,404 | 12 |
| United Kingdom (13) | 339,700 | 13 |
| Sweden (15) | 334,391 | 14 |
| Taiwan(16) | 312,075 | 15 |
| France (14) | 301,503 | 16 |
| Israel (18) | 284,224 | 17 |
| Ireland (20) | 258,357 | 18 |
| Germany (17) | 256,715 | 19 |
| South Korea (21) | 251,223 | 20 |
| Austria (19) | 243,473 | 21 |
| Spain (22) | 233,739 | 22 |
| Italy (24) | 214,663 | 23 |
| Japan (23) | 205,221 | 24 |
| Finland (26) | 183,367 | 25 |

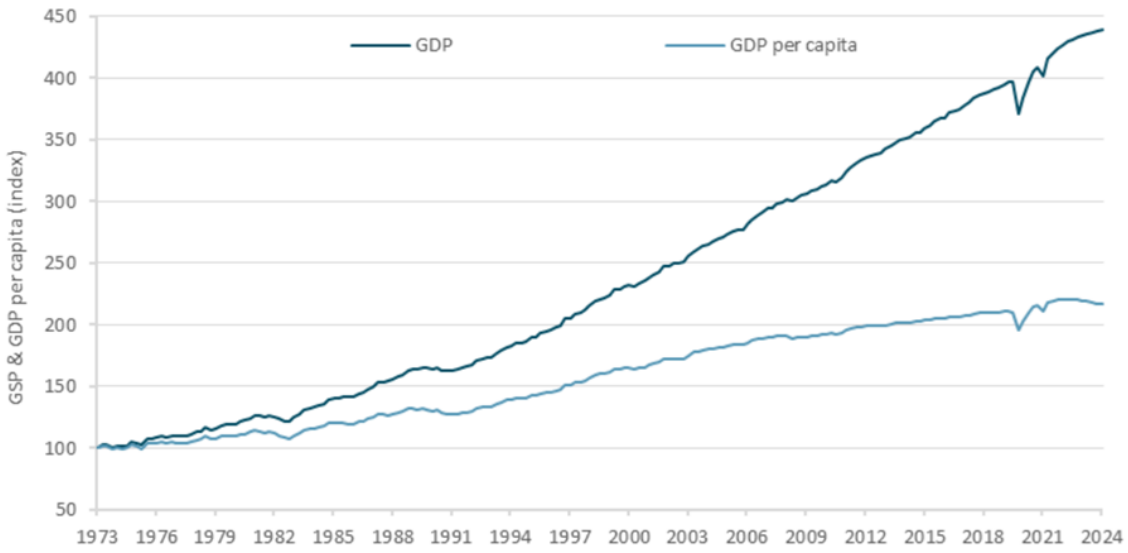
Top 25 in median wealth per adult (USD)

Numbers in parentheses indicate the position held in 2023

| | |
|---|---|
| Luxembourg (1) | 395,340 |
| Australia (2) | 268,424 |
| Belgium (3) | 253,539 |
| Hong Kong SAR (4) | 222,015 |
| Denmark (6) | 216,098 |
| New Zealand (5) | 207,707 |
| Switzerland (7) | 182,248 |
| United Kingdom (8) | 176,370 |
| Canada (10) | 151,910 |
| France (11) | 146,017 |
| Norway (9) | 142,501 |
| Netherlands (12) | 131,896 |
| Spain (15) | 126,290 |
| Italy (13) | 124,473 |
| United States (14) | 124,041 |
| Malta (19) | 120,875 |
| Taiwan (16) | 114,871 |
| Singapore (18) | 113,976 |
| Ireland (21) | 105,626 |
| South Korea (20) | 104,067 |
| Japan (17) | 102,198 |
| Qatar (22) | 102,178 |
| Finland (23) | 94,794 |
| Sweden (24) | 89,430 |
| Israel (26) | 88,866 |

**Source** : UBS Global Wealth Report 2025

First, living standards have stagnated in Australia over the past decade. While economic growth has risen, it's mostly been driven by increased immigration. On a per capita basis, GDP is barely above 2015 levels.




*Source: ABS, Venn Brown*

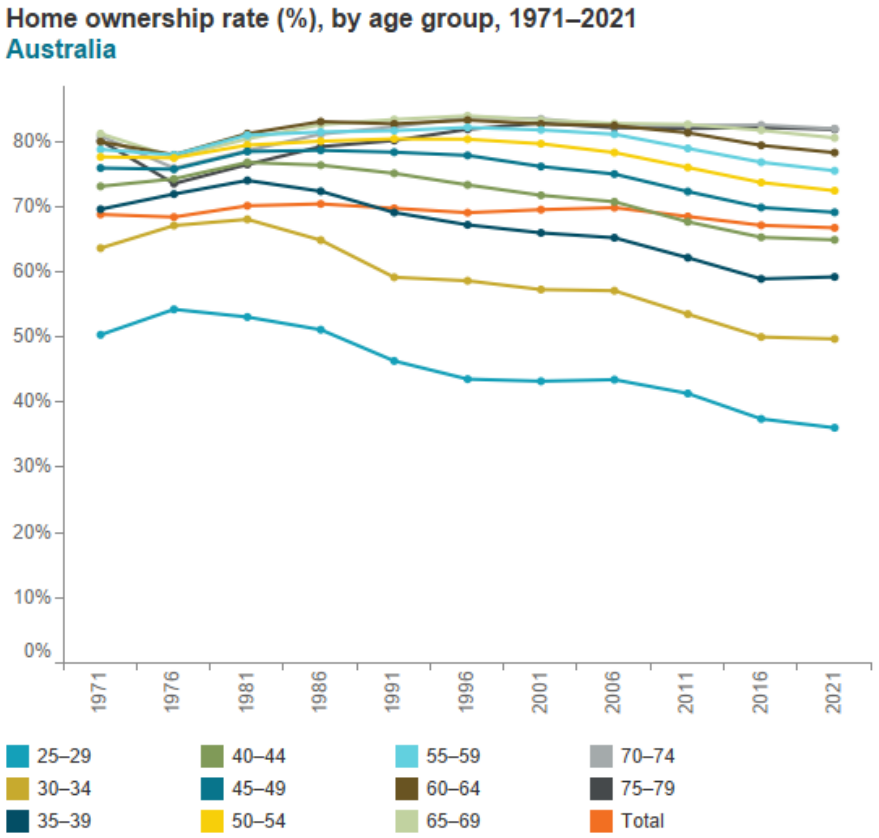
Wages have struggled to keep up with inflation. Meanwhile, costs in essentials such as groceries, education, and housing, have soared since Covid. That's resulted in record university debts and declining levels of home ownership for younger age groups.

**Tightening belts**

The strains on the young show up in household spending data.

KPMG says that younger Australians are pulling back on recreational spending to cover costs like mortgage repayments, rent and other essential expenses, while older Australians are enjoying more travel and dining out.

The top five categories as a percentage of household spending for each age group in 2023-24 were:




**25-34 yr**

1. Home loan repayments: 18.0%
2. Food: 9.0%
3. Rent for housing: 8.9%
4. Dining out & takeaway: 8.0 %
5. Household goods: 5.6%

**35-44 yr**

1. Home loan repayments: 22.3%
2. Food: 9.7%
3. Other financial services: 6.6%
4. Dining out & takeaway: 5.7 %
5. Recreation & cultural services: 5.2%

**45-54 yr**

1. Home loan repayments: 18.6%
2. Food: 9.8%
3. Dining out & takeaway: 6.1%
4. Other financial Services: 5.5%
5. Recreation & culture goods: 5.4%

**55-64 yr**

1. Home loan repayments: 13.4%
2. Food: 10.0%
3. Insurance: 7.5%
4. Other goods & services: 7.4%
5. Recreation & culture goods: 6.9%

*Note: the data captures the average spend of a household and does not reflect the average spending of an individual. Source: ABS: KPMG*

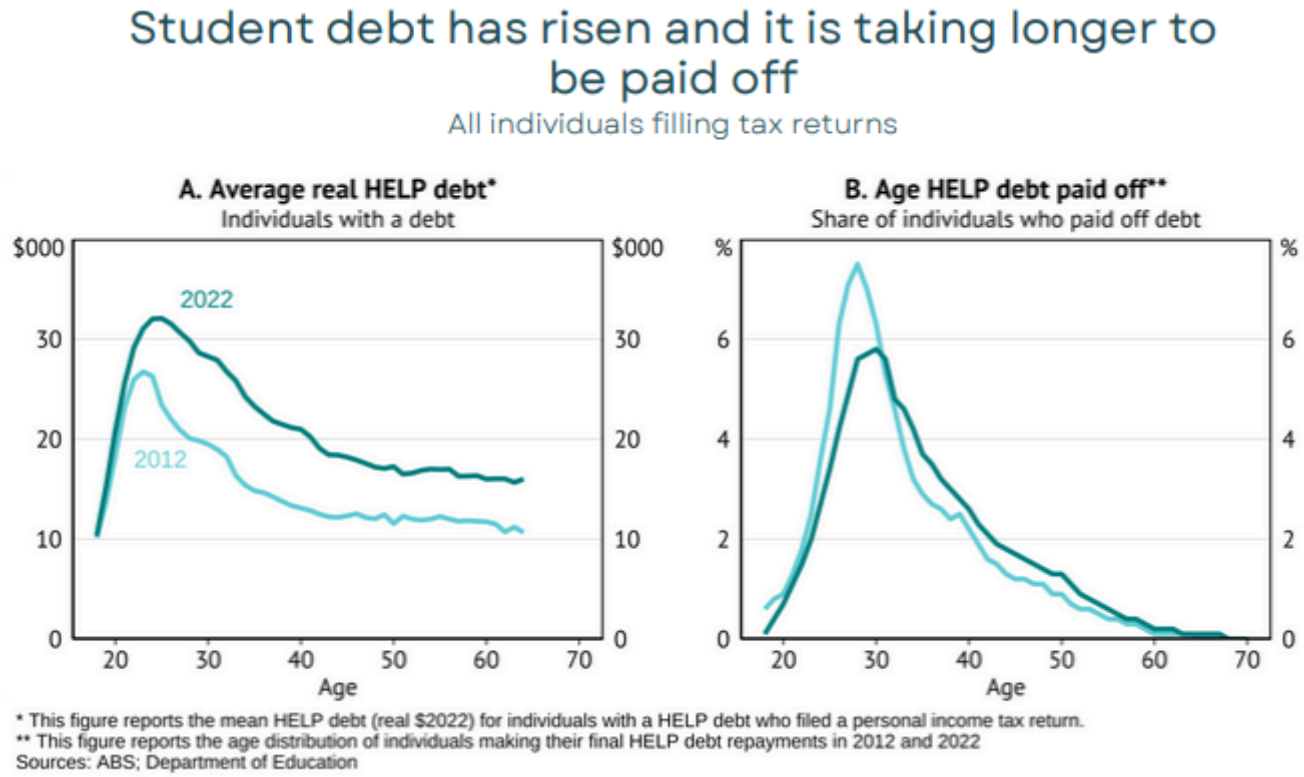
While the top expenses for all Australian households continue to be mortgage repayments and good, 25–34-year-olds are spending more on rent than any other age group, highlighting the declining homeownership rates of this generation.

KPMG Urban Economist Terry Rawnsley says that "we are witnessing the rise of 'Generation Rent', with saving for a deposit and servicing a home loan increasingly challenging, especially in our capital cities."

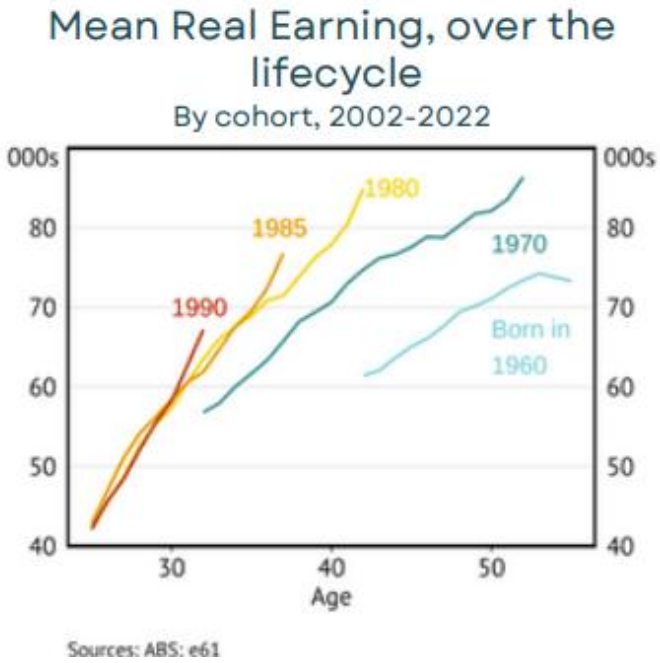
**It may not be all bad**

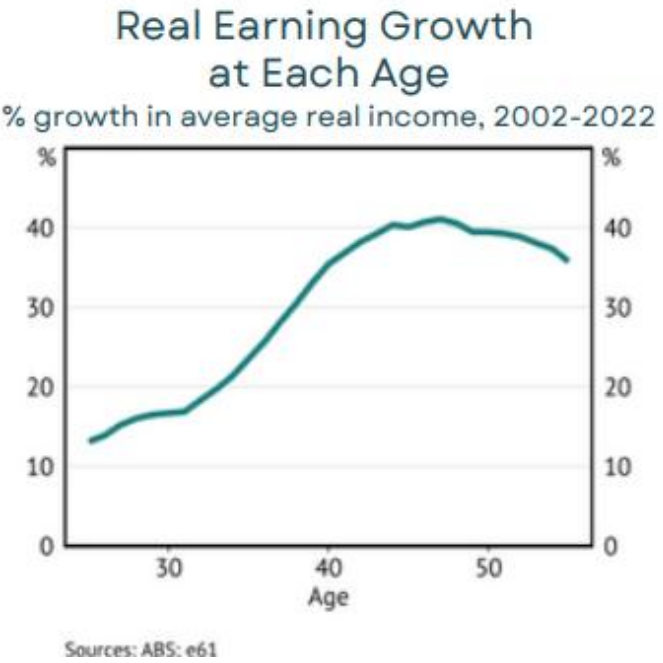
A new report from thinktank, E61, 'Will young Australians be better off than past generations?', suggests negativity around the outlook for younger generations may be overdone.

It admits that the young are more indebted. Since 2012, the number of Australians under the age of 35 with a HELP loan has risen from 20% to 30%. The average size of these debts has also increased by more than 30%, reaching $26,463. And younger people are taking longer to repay their loans. The average age for final repayment of loans has grown from 32.7 in 2012 to 34.8 now.




And wage growth has been slow. The report says that since the GFC, workers under the age of 40 have seen their income grow by less than half the rate of those aged over 40. This trend has puzzled economists, who offer a variety of potential explanations, including rising underemployment, a shift toward more casual work, pay award decisions, and an oversupply of workers relative to available high-quality jobs.




Also, the report says that while the jobs market has been strong, it's benefited women more than men. The unemployment rate for men aged 15 to 24 is 10.6%, far higher than their female counterparts at 8.3%. E61 partly puts that down to a structural decline in traditionally male-dominated industries such as construction, manufacturing, and mining.

The report notes that opportunities to get ahead in regional areas have also become more difficult. More than 10% of young people are neither in full-time study nor work, compared to 7% in capital cities. For young men in the country, this share has increased from 5% in 2000 to 9% now.

Finally, E61 acknowledges that homeownership rates among the young are declining. Today's 25- to 34-year-olds have lower home ownership rates than their parents when they were the same age, with a greater disparity in capital cities.

Despite these challenges, the report says there's room for optimism. In many ways, young Australians have access to opportunities that weren't available to their parents and grandparents.

Today, they're better educated, earn more in the early stages of their careers, and have more diverse and flexible job paths. Young people are also benefiting from tremendous technological advances in artificial intelligence, robotics, and the like, which is giving them greater access to information through the internet, improvements in the availability of digital goods, and cheaper consumer goods.

Younger people are also building superannuation balances over longer careers at higher rates, and many of them will inherit a slice of the $5.4 trillion intergenerational wealth transfer over the next 20 years.

Lastly, the report makes the point that changing patterns in consumption and wealth-building mean economic achievements, like moving out of home, buying a house and starting a family – are still happening, but they're often occurring later in life than with previous generations.

**What should governments do?**

The report says policymakers should consider the following to ensure younger people are better off than previous generations:

**1. Don't jump at shadows.**

E61 says young people may still experience traditional markers of economic security and adulthood but just later in life. Distinguishing between what is temporary, what is permanent, and what reflects a change in people's preferences will be important. One risk is in assuming that younger people should have things at the same time as previous generations. That may not be the case.

**2. Beware one-size fits-all solutions**

The report says that this generation's journey toward adulthood is far from uniform. It thinks gender and geography are key factors shaping outcomes for young Australians. That being the case, it will be important for governments to provide specific solutions rather than generic ones.

**3. Manage economic and social trade offs**

Change brings benefits and costs. For instance, technology is a wonderful advance though there's also evidence that it's impacting the mental health of young people, especially young women. Governments will need to be aware of the potential tradeoffs to future policies to help the young.

**It doesn't address the big issues**

While the E61 report is a balanced one, its conclusions are vague and don't consider the two issues that can most improve the lives of younger people: making housing more affordable and improving living standards via better productivity. Get these things right, and the young will be better off than their parents. Get them wrong, and the current challenges will only get worse.

Neither is an easy fix, though we've discussed some of the potential solutions in articles (here, here and here) in recent weeks.

*James Gruber is Editor of Firstlinks.*

## The rubbery numbers behind super tax concessions

### Tony Dillon

As the proposed new Division 296 superannuation tax continues to be debated, Treasury's Tax Expenditures and Insights Statement (TEIS), often enters the conversation. It quotes a total super tax concessions figure in the vicinity of $50 billion annually, a misleading figure that the proposed new super tax relies heavily upon for justification.

Misleading in the sense that it is based on an inappropriate benchmark for cost purposes, comparing the 15% tax on super contributions and earnings to what would have otherwise been collected if the individual's marginal tax rate had applied.

The problem with this approach is that it ignores restrictions on access to super savings until retirement age, and that there is a compulsory element to contributions. This reduces the real value of super savings compared to funds readily available today. A more realistic attempt at calculating the tax concessions would apply a liquidity discount to account for inaccessibility. Treasury's report also ignores behavioural changes in the absence of tax concessions.

In assuming super tax concessions are immediate give aways, the TEIS overlooks the real economic costs to individuals of tying up funds for decades. Calculating a liquidity cost to future savings would yield a more accurate assessment of any tax concessions. So what might a liquidity discount look like, and how would it be applied?

Quoting David Laibson in The Quarterly Journal of Economics, Vol. 112, No.2 (1997): "Individuals often require more than a doubling or tripling of current consumption to defer gratification for a few decades." Noting that behavioural experiments typically use nominal dollars, without reference to inflation, as people don't generally adjust for that mentally.

And if deferring consumption was compulsory, you could argue for a multiple greater than two to three times.

**An example**

So let's assume someone might be indifferent to having $100 today or $300 in 30 years' time.

Implying that for any investment inaccessible for 30 years, the individual would value the expected maturity value at one-third of that amount, in today's terms. Which represents a 66.7% discount on the future value, or annually, a liquidity discount rate of 3.73%.

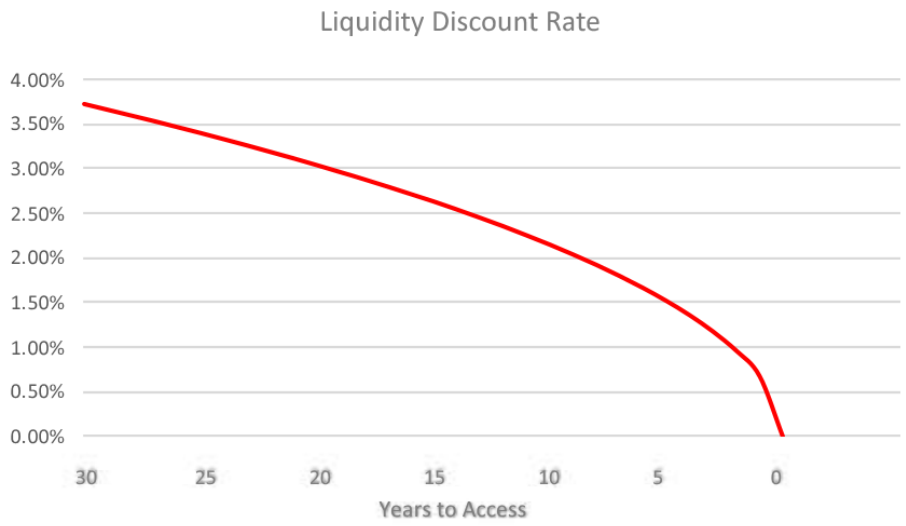
Even though an investment is expected to grow to a certain dollar value, the individual perceives it as worth only one-third of that because they can't access it for 30 years. That is a loss of value in utility terms, not in nominal dollars.

If however, no restrictions applied to accessing funds over the 30 year period, then a liquidity discount would not apply, and the individual would value the investment at its full expected future value.

Note that liquidity discounting is independent of investment performance. Rather, it is about how much a person devalues locked up money because they are unable to draw on it if needed, reallocate it if a better opportunity arises, or smooth consumption over time. In other words, the kind of behaviour the TEIS overlooks when it treats concessional tax rates as benefits without recognising the cost of loss of liquidity.

In reality, an individual's annual liquidity discount rate would decrease as time to accessibility of funds approaches. For example, a 35-year-old would value $100 available in 25 years' time, less than a 55-year-old would value it in five years from now. The annual cost of foregone consumption or opportunity shrinks with time to access. And the decline in discount rate would not be linear, with a steadier drop from younger ages when there is a higher premium on liquidity and more uncertainty, to an accelerating decline as retirement approaches and the discount rate approaches zero.

The result being a curve with a non-linear concave decline as time to access approaches zero. Beginning with a maximum annual liquidity discount rate of 3.73%, such a curve might look like this:




This curve can be used to discount a stream of super fund contributions for illiquidity.

For example, suppose $100 per year goes into a super account for 30 years earning 5% p.a. before tax. That is, $85 per year earning 4.25% after 15% tax, would accumulate to $5,183.

Applying the discount curve to this fund reduces the accumulated value to $3,567. That is, for this individual, the accumulated value of $5,183 in 30 years would be equivalent to $3,567 in today's terms. This represents an overall discount for illiquidity of 31.2%, which would seem intuitively modest when forgoing access to funds for a full 30 years.

By comparison, assume the same contributions went into an ordinary taxed fund with no access restrictions, and a 30% marginal tax rate. Then $70 per year earning 3.5% after tax would accumulate to $3,740. Which is more than the super fund's discounted value of $3,567.

If, however, the super fund tax rate was lowered to 12.6%, then its accumulated value adjusted for illiquidity would be equal to the ordinary taxed fund's value.

That is, a fund with full access taxed at 30% accumulates to $3,740. A fund locked up and taxed at 12.6%, and allowing for illiquidity accumulates to $3,740. So a drop in tax rate from 30% to 12.6% is needed to compensate this individual for locking up his funds for 30 years.

But this individual would be paying 15% tax, so clearly there are no tax concessions for him. Yet the TEIS implies that he is the recipient of concessions because of benchmarking to his 30% marginal tax rate.

Going through the same process with a 37% marginal tax rate would yield a required super tax rate of 20.9% to compensate the investor for illiquidity. In that instance there would be small tax concessions when comparing to a tax rate of 15%.

And a 45% marginal rate translates to a required 30.5% super tax rate. Again, concessions exist, but certainly not to the extent of the 15% super tax rate being assessed against 45%.

And if the same analysis is undertaken for a 40-year scenario, the following results are obtained:

Marginal tax rate | Super tax rate required
30% | 5.6%
37% | 14.3%
45% | 24.3%

That is, even less tax concessions, which makes intuitive sense when funds are locked up for an extra ten years.

Note that this analysis is based on a specific discount rate curve for illiquidity, the rate and shape of which can vary depending on individual circumstances like age, income level, family status, and so on. Even though there is no widely agreed discount rate size or profile, it could be estimated for example, by comparing returns between liquid and illiquid assets. Or it could be based on choice experiments that reveal results like an indifference between having something now, or a multiple of that in decades time. It could also be based on opportunity costs where individuals forgo access to funds, but have mortgage and/or credit card debt.

**The need for an honest assessment**

Suffice to say that illiquidity costs are real and discount rates will not be zero. While there may be a budgetary cost to running a superannuation system, there is also a personal economic cost, because locking up money long term is not free, and the assumption of a 0% liquidity premium in the TEIS is unrealistic. It is difficult to estimate without data, but modest discounting might as much as halve the value of super tax concessions reported.

If government is going to motivate people to save for retirement, it must be prepared to offer meaningful incentives to individuals for giving up access to large sums of money for many years. A reduced tax rate is one way, with the amount of reduction debatable. And if Treasury is going to introduce measures to help sway the debate, surely it has a duty to estimate those measures as accurately as possible.

*Tony Dillon is a freelance writer and former actuary.*

## A steady road to getting rich

### Tony Kaye

The lists of Australia's wealthiest individuals and families published annually by different media organisations are generally an interesting read.

Ranking them by their net wealth, they show that many of the richest Australians have progressively become richer over time through a combination of business expansion, market forces and shrewd investment decisions.

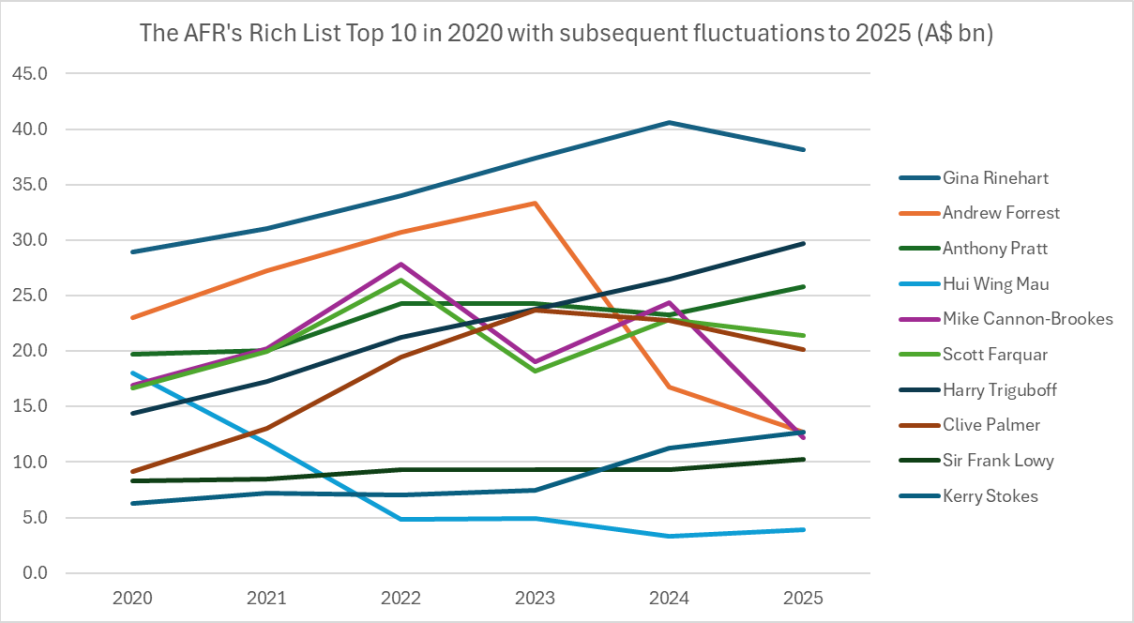
In fact, looking at the aggregate data compiled over the last five years alone, the estimated combined wealth of the top 200 wealthiest people in Australia has jumped by around 50% to over $670 billion.

Australia's top ranks include individuals involved in resources, property, information technology, and investing. One could describe them as a diversified group of investors.

Yet, the real story behind the rich list rankings only becomes apparent when one digs a little deeper and compares how individual fortunes have changed from year to year.

The overall numbers have continued to increase, but the wealth gains by individuals have certainly not been uniform over time. In fact, among the top rankings, individual wealth levels have tended to shift up and down by billions of dollars from year to year.

Some individuals and families have managed to increase their fortunes every year, without fail. But others, because of unfavourable market conditions, poor investment decisions or a combination of both, have suffered losses over the same time and slipped down the overall rankings. Some have even fallen off the rich list entirely.




*Source: Wikipedia, Financial Review Rich List [https://en.wikipedia.org/wiki/Financial_Review_Rich_List]*

With the benefit of hindsight, those people may have chosen to do things differently.

**Following a managed investment strategy**

For example, as contrarian as it may sound, had the latter cohort – those who have slipped down or off the wealth rankings entirely – simply adhered to a managed investment strategy over the last five years instead of pursuing their business interests, their net worth now may actually be higher than it was in May 2020.

And the numbers supporting this strategy are even more compelling over longer periods of time, thanks to the compounding growth on global share markets.

To illustrate this point, let's compare the unit price returns over five years of three different Vanguard equities-based exchange traded funds (ETFs) based on an initial $10,000 investment back in April 2020.

They are the Vanguard Australian Shares Index ETF (VAS), the Vanguard MSCI Index International Shares ETF (VGS), and the Vanguard U.S. Total Market Shares Index ETF (VTS).

These particular ETFs have been chosen for illustrative purposes only because each closely tracks the broad performances of share markets in different parts of the world.

Here are the results, with the table below showing what a $10,000 investment made in May 2020 , during the early days of the COVID-19 pandemic, would have been worth on the Australian Securities Exchange (ASX) at 31 May 2025.

This data is based on each fund's month-end net asset value (NAV), which is the value of its investments divided by the number of units in the fund. NAV movements give a good indicator of the historical performance of a fund, but they won't exactly match the returns you see as an investor. That's because your performance experience is based on the buy price (the price at which you buy into a fund) and the sell price (the price at which you sell).

The unit price returns exclude income distributions that were received by investors over the period.

| ETF | Investment Value Balance at 31 May 2025 | Percentage Return Increase Since 31 May 2020 |
|---|---|---|
| Vanguard Australian Shares Index ETF (ASX code VAS) | $17,617 | 76% |
| Vanguard MSCI Index International Shares ETF (ASX code VGS) | $20,107 | 101% |
| Vanguard U.S. Total Market Shares Index ETF (ASX code VTS)* | $20,963 | 110% |

***Source:*** *Vanguard. The example is illustrative only. Data is based on the difference in fund net asset values between 31 May 2020 and 31 May 2025. Past performance is not a reliable indication of future performance. *VTS returns are in U.S. dollars.*

**Staying the course**

What the numbers demonstrate is that, over the last five years, many investors using broad-based index funds that invest in different equities markets would have been well ahead by now, even without making any additional investments along the way.

Inputting higher initial deposit numbers, making regular investments in the same ETFs, and the reinvestment of distributions would obviously have produced even more impressive total returns.

And keep in mind that the last five years has included significant volatility following COVID and during the more recent economic, geopolitical and trade events.

The Vanguard Index Chart provides a much longer perspective over the last 30 years, showing the growth of different investment classes and how a starting balance of $10,000 would have changed in value after being invested into each asset class.

It's a valuable lesson that at least some Australian rich listers have taken on board. In addition to expanding their business interests, it has been reported certain individuals have been investing heavily into ASX-listed and foreign-listed ETFs.

One could say they are hedging their investment bets.

*Tony Kaye is a Senior Personal Finance writer at Vanguard Australia, a sponsor of Firstlinks. This article is for general information purposes only and does not consider the investment objectives, financial situation or needs of any individual. For more articles and papers from Vanguard Investments Australia, please click here.*

## Would a corporate tax cut boost productivity in Australia?

Isaac Gross

The first term of the Albanese government was defined by its fight against inflation, but the second looks like it will be defined by a need to kick start Australia's sluggish productivity growth.

Productivity is essentially the art of earning more while working less and is critical for driving our standard of living higher.

The Productivity Commission, tasked with figuring out how to get Australia's sluggish productivity back on track, is pushing for corporate tax changes as a key part of their plan for building a "dynamic and resilient economy".

The idea? Lower taxes will attract more foreign investment, get businesses spending again and eventually boost workers' productivity.

Commission chair, Danielle Wood, said last week while the commission wanted to create more investment opportunities, it was aware this would hit the budget bottom line:

*"So we're looking at ways to spur investment while finding other ways we might be able to pick up revenue in the system"*

The general company tax rate is currently 30% for large firms, and there's a reduced rate of 25% for smaller companies with an overall turnover of less than A$50 million.

**What the textbooks and other countries tell us**

The Productivity Commission's theory makes sense: if you make capital cheaper and you should get more of it flowing in.

A larger stock of capital means there is more to invest in Australian workers. This should make us more productive and help boost workers' wages. And looking overseas, the evidence mostly backs this up.

A meta-analysis of 25 studies covering the US, UK, Japan, France, Germany, Canada, Netherlands, Sweden, Italy, Switzerland, Denmark, Portugal and Finland found every percentage point you slice off the corporate tax rate brings in about 3.3% more foreign direct investment.

Other research shows multinational companies really do move their operations to places with lower tax rates. This explains why we're seeing this race to the bottom across Europe and North America, with countries constantly trying to undercut each other.

Research on location decisions shows how multinationals reshuffle their operations based on effective average tax rates.

Even within the United States, a US study found increases in corporate tax rates lead to big reductions in employment and wage income. However, corporate tax cuts can boost economic activity – though typically only if they are implemented during recessions.

**Australia's limited track record**

Here in Australia we don't have much local evidence to go on, and what we do have is pretty puzzling.

This matters because Australia's corporate tax system has some unique features that may make overseas evidence less relevant. We have dividend imputation (franking credits), different treatment of capital gains, access to immediate reimbursement for some small business expenses and complex capitalisation rules that limit debt deductions for multinationals.

A study by a group of Australian National University economists looked at how the tax system affects business investment. They examined the [2015 and 2016 corporate tax cuts] for small businesses using data on business investment from the Australian Bureau of Statistics combined with tax data from the Australian Tax Office.

The findings were mixed. After the 2015 cut, firms already investing in buildings and equipment spent more — that is, the policy boosted investment only at the intensive margin.

By contrast, there was no evidence it enticed firms that had not been investing to start doing so. The follow-up cut in 2016 had even less bite. Its estimated effect on investment was so small it is statistically indistinguishable from zero.

It remains unclear why the previous corporate tax reductions largely failed to produce a measurable increase in investment. Perhaps the tax cut itself was simply too modest. Or the available data was too volatile to capture its effects.

But it runs contrary to what economic theory tells us to expect. This should give us pause for thought.

**The big questions nobody can answer yet**

For politicians thinking about another round of corporate tax cuts, this creates an uncomfortable situation. We've got solid evidence from overseas it works, but only one weak data point from Australia, plus a lot of head-scratching about why the second cut didn't move the dial.

Fortunately, the Productivity Commission has the in-house expertise to further investigate this question.

Before we make further cuts to the company tax rate, we should have an in-depth study of these two tax cuts replicating and extending the previous work to see what effect – if any – they had on investment, employment, productivity and Australian living standards.

Until we can solve these puzzles, Australia's debate over corporate tax rates will keep spinning its wheels. Much like our national productivity itself.

The Conversation

*Isaac Gross, Lecturer in Economics, Monash University*

# Are V-shaped market recoveries becoming more frequent?

Peter Weidner and team

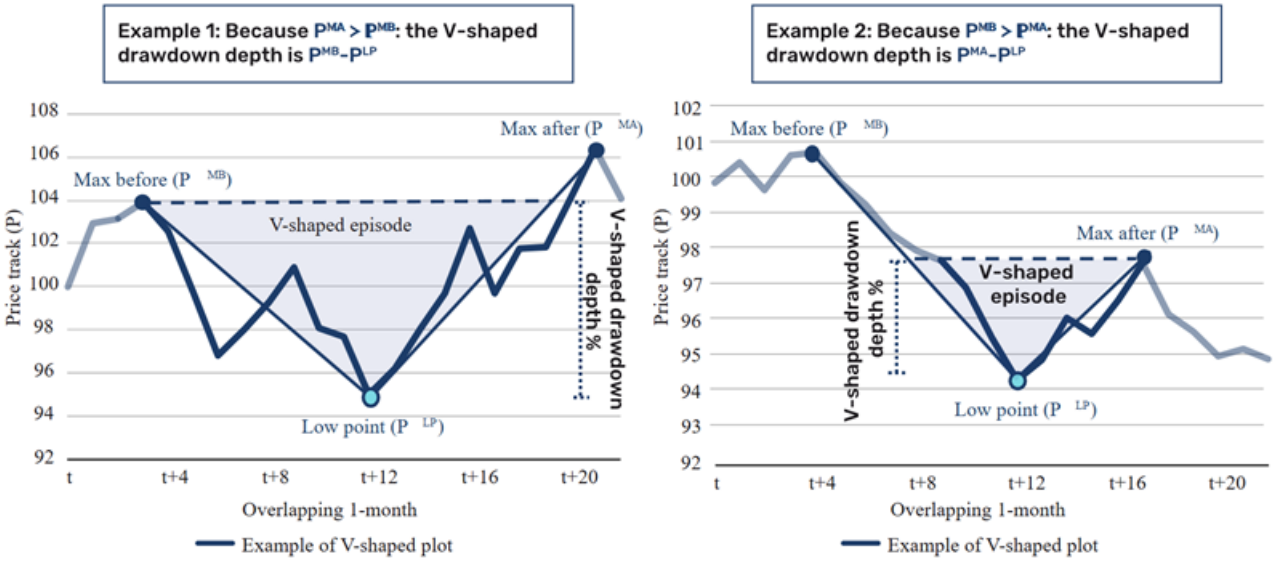
The events of April 2025, when the S&P 500 plunged more than 10% in the first six trading sessions, only to recoup almost all of its losses by the end of the month, reignited the debate on the frequency of V-shaped recoveries. History has shown us that not all market corrections are short-lived; a small sell-off can precede a major fall in equity markets, as we saw in 2008 and 2020.

But is the current environment different? This is a question we are increasingly asked, reflecting concerns that post-COVID market dynamics and heightened policy uncertainty will be characterised by more rapid market snapbacks. We decided to investigate by examining the April 2025 rebound in the context of V-shaped recoveries through history.

**April 2025 recovery: outlier or sign of a structural shift?**

We first need clear criteria to identify V-shaped recoveries. We examine cumulative daily returns for the MSCI World since 2000 across all one-month (defined as overlapping 21-day) periods. In each period, we identify the lowest point of cumulative return and then identify the maximum values before and after that point. We then define the depth of the V-shaped recovery as the difference between the lower of the two maximum values and the minimum point, as illustrated below.

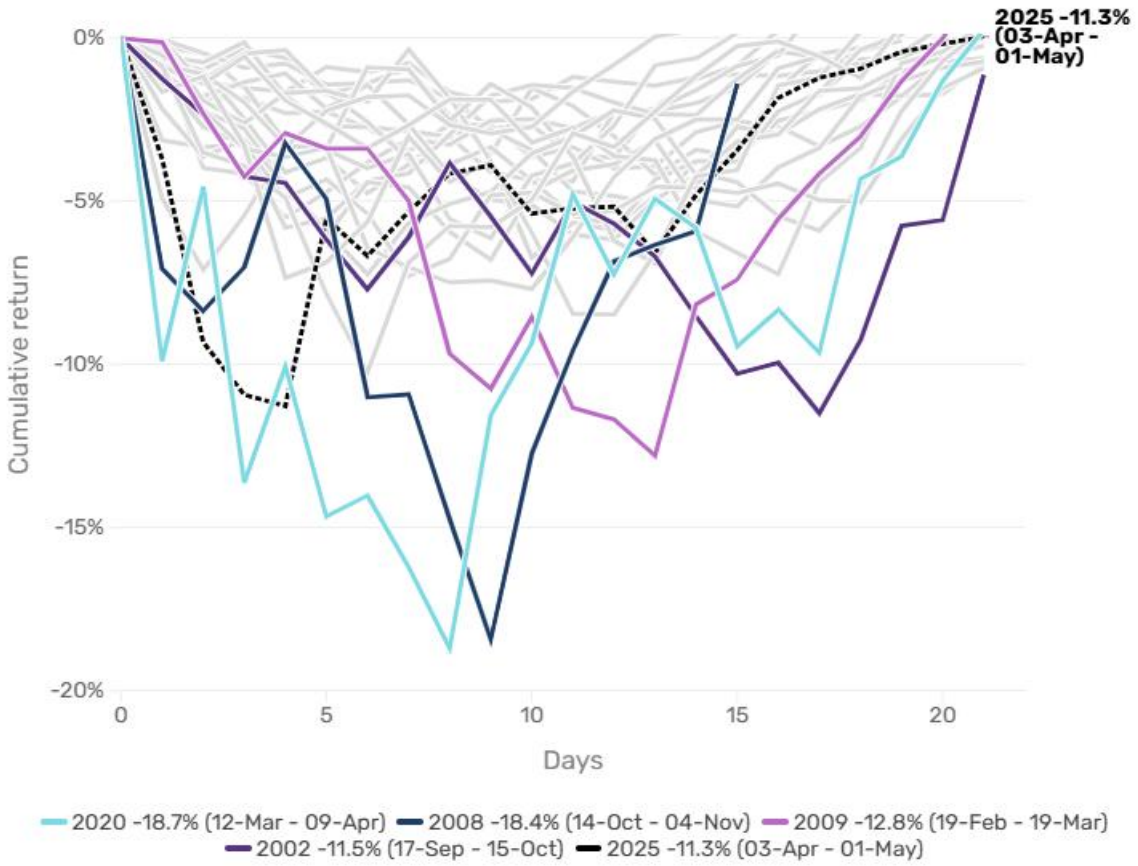
**Figure 1.** Defining a V-shaped recovery




*Schematic illustration. Source: Man Group, as of May 2025.*

Figure 2 plots the deepest V-shaped recoveries in the MSCI World since 2000 by selecting the most pronounced reversal each year. It shows that April 2025 was among the steepest and sharpest moves to date, comparable to those V-shaped recoveries seen during major market downturns, including the dot-com bust, Global Financial Crisis (GFC) and COVID.

**Figure 2.** Maximum V-shaped recovery over one month by year for MSCI World since 2000

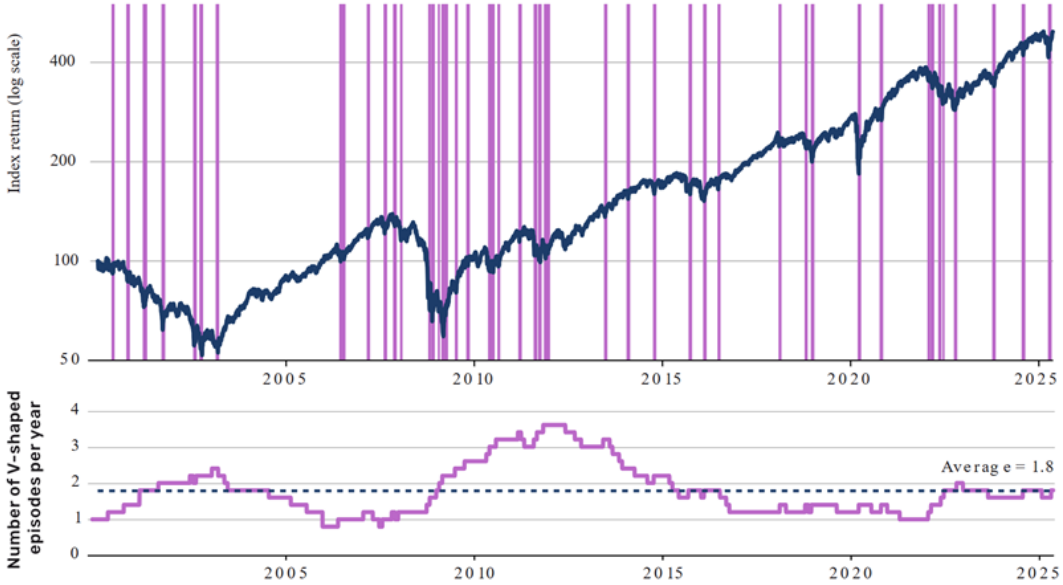



*Date range: Jan 2000 – April 2025. Source: Internal Man Group Databases, Bloomberg.*

**Have V-shaped recoveries become more frequent?**

Next, we examine one-month V-shaped recoveries of at least 5% (excluding overlaps) since 2000. The top chart in Figure 3 displays the MSCI World's cumulative returns, with qualifying one-month recoveries highlighted in pink. The bottom chart shows the rolling five-year average number of events per year.

**Figure 3.** MSCI World returns, highlighting 5% V-shaped recoveries in one month




*Date range: Jan 2000 – Apr 2025. Source: Bloomberg, Man Group Internal Databases.*

While V-shaped recoveries occur more frequently amid heightened market volatility, our analysis shows that they have emerged across various market environments: during prolonged downturns (2001–2003), following marked corrections (2009 and 2020), and even within sustained bull market phases (2006 and 2014). Although April 2025's V-shaped recovery was notable for its speed and depth, Figure 3 does not suggest it was indicative of a broader, structural shift toward more frequent rapid rebounds. Instead, perhaps the notion that their frequency is increasing lends support to the Baader-Meinhof phenomenon, or frequency illusion, particularly when considering the recency of the 'Yenmageddon' event that interrupted 2024's summer hiatus.

**Is it different this time?**

With all the above said, there are lingering questions about whether the current environment is unique relative to history. Given the US administration's appetite for bold policy approaches and reversals, some investors are concerned that there may be more V-shaped recoveries in the near future. While this is certainly a possibility, it is dependent on some assumptions.

First, it assumes that markets do not adapt to new information. More specifically, reversals on broad-based reciprocal tariffs, Federal Reserve independence and China-specific tariffs mean market participants now have to price in the probability of policy U-turns. This is expected to lead markets to react less negatively to bold policy movements, thus creating lower risk of V-shaped recoveries.

Second, it assumes that these announcements can be effectively rolled-back. While any policy can technically be reversed, markets dislike such uncertainty. Financial theory suggests that when markets face repeated dramatic policy shifts, investors should demand higher risk premiums to hold assets, pushing prices lower. Continued V-shaped recoveries would suggest that the market is persistently agnostic to this risk.

We do not discount the prospect of increased volatility in markets, including further V-shaped recoveries. However, we strongly believe that markets are likely to incorporate the information available to them and adjust their reaction function accordingly.

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## Asset allocation in a world of riskier developed markets

Peter Kent

Bond markets are in a new regime – 'safe havens' are no longer acting as such, and investors can no longer expect asset classes to behave as they have done historically. As a result, asset allocation approaches need a reboot, and portfolio diversification has never been such a virtue.

**The new market regime**

One thing that's clear from the recent market turmoil is that asset classes are not behaving as they should. Traditional 'safe haven' debt markets have entered a new (higher) volatility regime, while supposedly 'risky' areas of the market have shown surprising resilience. The once distinct line between developed market (DM) and emerging market (EM) assets appears to have blurred. This, together with other macroeconomic and geopolitical shifts, has profound implications for asset allocators.

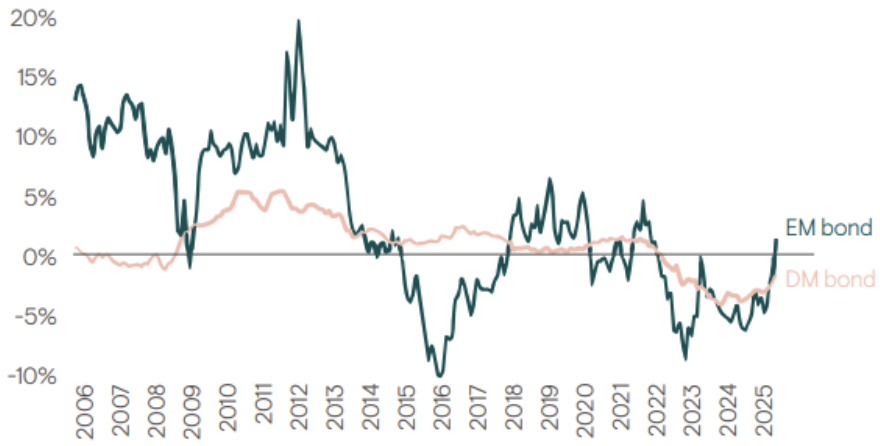
**Unexpected behaviour in bond markets – a blurring of lines**

Back in 2022, we began alerting investors to an apparent regime shift in bond markets. Recent market events suggest this is more than a fleeting move – a fundamental shift appears well underway

In recent years, the volatility of asset classes traditionally viewed as risk-free, such as the UK Gilt, German Bund and US Treasury markets, has shifted gear. In fact, considering the behaviour of both the EM and DM asset classes from a risk and return perspective, there appears to have been a blurring of lines – a phenomenon we refer to as the 'EM-ification of DM'.

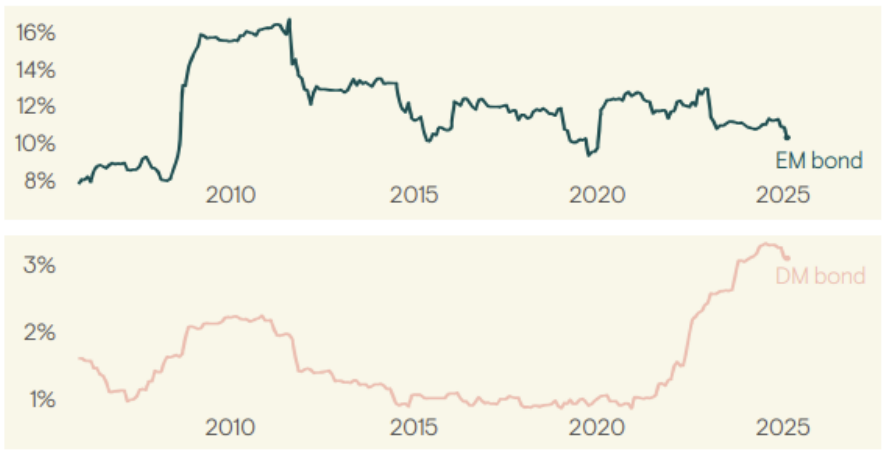
Since 2022, returns have been lacklustre in DM bond markets, while EM bonds have shown surprising resilience (Figure 1). Meanwhile, volatility in the EM bond market has remained within its historical ranges, but in DM it has risen sharply (Figure 2). Furthermore, there have

Figure 1: Returns - rolling 3-year excess return over cash




Source: April 2025. EM bond = JPM GBI-EM unhedged. DM bond = equal weighting of USD hedged US, Japan, Germany, UK, Canada, New Zealand from Bloomberg Barclays Aggregate series. For further information on indices, please see the Important information section.

Figure 2: Risk - rolling 3-year volatility




Source: April 2025. EM bond = JPM GBI-EM unhedged; DM bond = equal weight of USD hedged 3-5yr US, Japan, Germany, UK, Canada, New Zealand from Bloomberg Barclays Aggregate series. For further information on indices, please see the Important information section

been episodes of bear steepening in DM yield curves, which reflect concerns around policy credibility (as noted here) – an unenviable phenomenon traditionally reserved for EM bond markets.

**Driving forces behind a shift in asset class behaviour**

Three broad developments – across EMs and DMs – help to explain a shift in DM bond market volatility and blurring of lines between DM and EM bond market behaviour:

**1. Orthodox monetary policy in EMs**

Despite the headwind of relentless US dollar strength – plus the negative impact of Russia's local currency debt being written down to zero in 2022 – the EM debt asset class has shown resilience. This is largely thanks to orthodox monetary policy in many EM economies, with EM central banks wasting no time in embarking on interest rate-hiking cycles when inflation began to rise post-COVID 19. In contrast, some of the world's largest government bond markets have suffered from delayed action by DM central banks, which deemed higher inflation to be a 'transitory' phenomenon, meaning the eventual rate-hiking cycle was possibly faster and more pernicious than the path followed by EM central banks.

**2. Fiscal restraint in EMs**

In stark contrast to some of their DM peers – where fiscal discipline has eroded in recent years – fiscal fundamentals in many EM economies have strengthened over the past decade. Spurred on by the upheaval of the 2013 taper tantrum, which exposed underlying economic imbalances, many EM economies have undergone a significant rebalancing, strengthening their resilience. Even after the COVID-19 pandemic took hold, many EM policymakers remained fiscally prudent, resulting in primary fiscal balances returning to surplus within just a few years and debt-to-GDP stabilising at modest levels. Today, there are some great examples of sound economic stewardship across the EM investment universe, with Argentina now an unlikely poster child in this regard (fiscal discipline and reform are turning around the Argentine economy).

The fundamental improvements in EM economies are fuelling an improvement in rating dynamics. Combining the outlooks of S&P, Moody's and Fitch, ratings upgrades in 2024 outstripped downgrades across EM regions. Furthermore, this positive trend looks set to continue: at the time of writing, 44 EM countries are currently on positive outlook, compared with 32 on negative outlook.

While there are notable exceptions, credible policymaking and fiscal reform are unmistakable trends in EM economies, and this is reflected in increased resilience.

**3. Less certainty around policymaking in DMs**

'Political instability', 'rising populism' and 'unsustainable public finances' are terms traditionally associated with EM countries, but they have become increasingly common descriptions for some of the world's largest and most 'developed' economies in recent years.

While each country's political backstory is unique, the common theme is a pronounced deterioration of macroeconomic fundamentals. Today, glaring fiscal imbalances in some 'advanced' economies suggest the world order has been turned on its head, with little sign of this reversing materially. All of this speaks to a much less predictable policymaking backdrop in DM economies, equating to a more uncertain macroeconomic outlook, and necessitating increasing caution by – and risk premium for – investors.

**Has DM debt lost its defensive properties?**

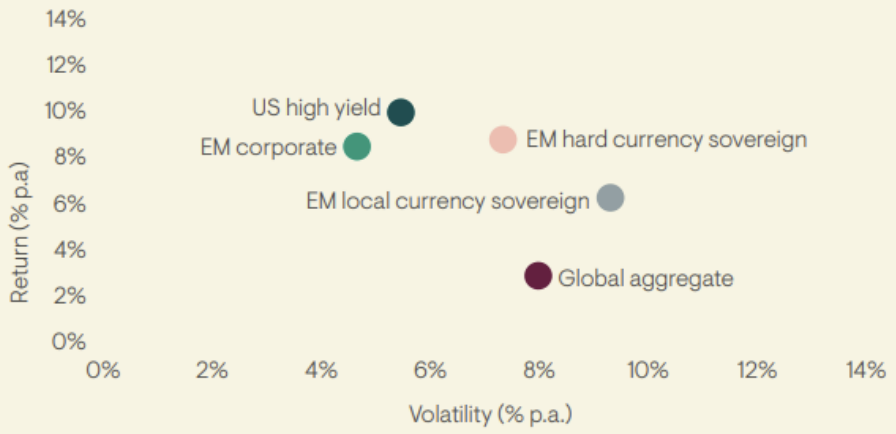
In addition to entering a new volatility regime, DM debt has also seen its role as a defensive portfolio allocation put to the test.

Over the past few decades, the economic community has generally become accustomed to dealing with 'demand shocks' – disruptions to aggregate demand, with the Global Financial Crisis a prime example. Analysing demand shocks, and policy responses to them, is relatively less complex than analysing supply shocks. Furthermore, the asset-class implications were predictable: when growth fell, lower inflation would follow, meaning fixed income behaved well as a defensive asset. But in the past 5-10 years, the nature of shocks hitting the global economy has changed. We have seen a series of 'supply shocks' – including Brexit, COVID-19, Russia's invasion of Ukraine, and trade tariffs. These are exceptionally hard to quantify and have resulted in growth and inflation moving in opposite directions – i.e., lower growth and sticky inflation. That has led to higher correlations between defensive and cyclical assets; in this context, DM bonds have been less able to shield investors from equity market losses.

Put another way, the shift from demand to supply shocks has changed the nature of interest rate risk and its relationship with risk assets, meaning it's not as helpful for managing a balanced portfolio as it used to be.

This shift has not gone unnoticed by policymakers; Fed Chair Powell recently noted: "We may be entering a period of more frequent, and potentially more persistent, supply shocks — a difficult challenge for the economy and for central banks".

**Figure 3: The new order of fixed income volatility: 2023 to March 2025 (in US dollars)**




Source: Ninety One, Bloomberg, JP Morgan, as at 31 March 2025. EM corporate: JPM CEMBI. US high yield: Bloomberg US Corporate High Yield index. EM hard currency sovereign: JPM EMBI. Global aggregate: Bloomberg Global Aggregate. EM local currency sovereign: GBI-EM GD. For further information on indices, please see important information section.

**Implications for asset allocators**

**Time to recalibrate asset-class perceptions**

All of the shifts outlined above point to the need to view DM debt markets in a different light when considering portfolio allocations.

The same can be said for EM debt, where perceptions are often outdated. As we outlined here, much has changed since so-called Brady bonds were first introduced in the late 1980s – when yields were sky high, liquidity was scarce, and most debt was dollar-denominated. Credible monetary policy in EM economies has underpinned the development and significant growth of the EM local currency debt market, and the volatility of the benchmark has fallen with the inclusion of more Asian markets, with somewhat lower yields today reflecting the higher quality of the asset class.

**A major headwind to EMs is retreating**

Taking a more forward-looking perspective, asset allocators need to question whether their experience over the past decade is likely to be repeated. The path of the US dollar is crucial, in this regard. The US dollar strength that has prevailed over the past decade, casting a shadow over EM asset-class returns, is arguably fading. While the US economy has dominated global growth in recent years – resulting in US assets attracting the lion's share of inflows and the US dollar going from strength to strength – the investment and inflation outlook for the next decade is likely to mean a more even distribution of nominal growth across the globe.

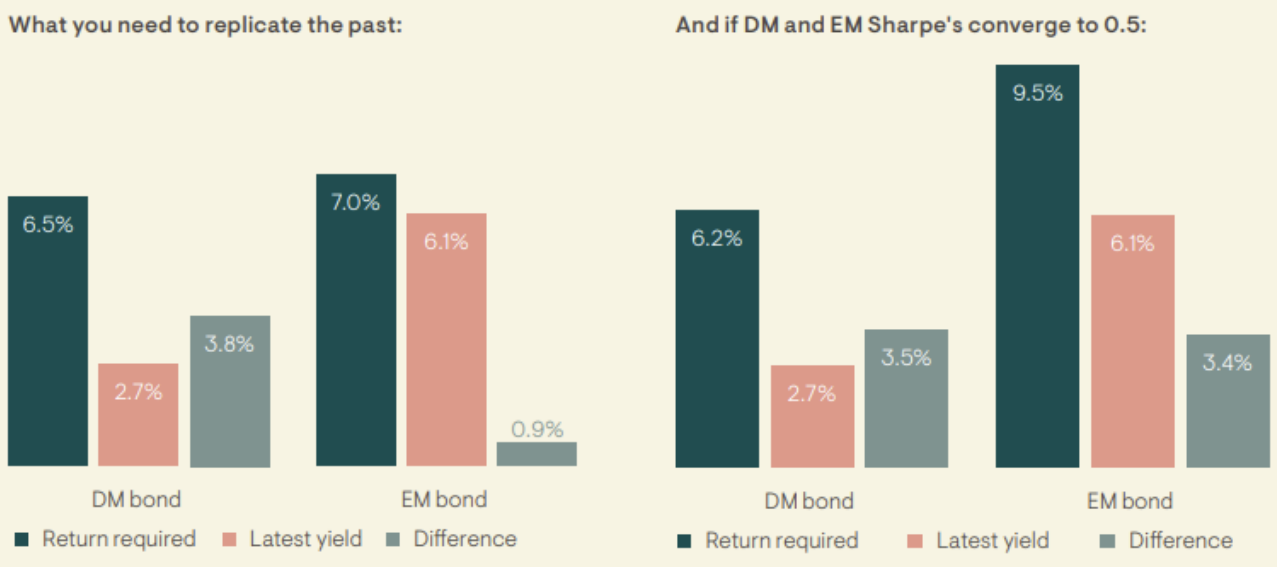
With the US dollar unlikely to follow the same path as the past decade, and the US dollar shadow fading, EM debt deserves to move back onto asset allocators' radars.

**A different decade lies ahead**

While asset allocators' experience will differ according to region and portfolio specifics, the framework below serves as a stylised example of what the new regime in DM bond market volatility means for asset allocators.

Heightened volatility in the DM bond market shifts the risk side of the risk/return equation. That means higher returns are now required to replicate past experience. Furthermore, if investors want to achieve the same Sharpe ratio from their DM and EM allocations as they have done historically, lower current yields point to a much higher capital gain requirement in DM; in contrast, yields in EM should provide the majority of what's needed (Figure 4).

**Figure 4: The implication of the new volatility regime in markets**




Source: Ninety One, Bloomberg, JP Morgan. Return required to replicate the past (left-hand chart): annualised return achieved January 2003 to May 2025. Latest yield: as at May 2025. EM bond = JPM GBI-EM unhedged. DM bond = equal weighting of USD hedged US, Japan, Germany, UK, Canada, New Zealand from Bloomberg Barclays Aggregate series. For further information on indices, please see the Important information section.

However, it seems reasonable to conclude that DM bonds will struggle to replicate historical outcomes. The next decade is likely to be more favourable for EMs as the rallying US dollar headwind begins to

weaken and structural themes such as deglobalisation, the energy transition and demographics impact market behaviour.

**Diversification has never been more important**

Shifts in asset-class behaviour, coupled with the changing nature of economic shocks outlined above, mean the case for portfolio diversification has never been stronger. Crucially, a 'far and wide' approach may be needed when diversifying. And this is not just about picking winners; it's about avoiding losers, especially in today's geopolitical reality.

Importantly, asset allocators need to look at diversifying across new dimensions. In the past, diversification was thought of in terms of regions, currencies, asset type (sovereign/credit etc.) but the changing role of interest rate risk and duration in portfolios is a vital consideration. All of this points to a more diversified global fixed income portfolio, which includes EM debt and probably has somewhat shorter duration.

In this context, it is important to recognise the usefulness of EM debt as a portfolio diversifier, given the varied behaviour of individual asset classes across the cycle and the large dispersion across markets that sit within these. A key benefit to investing across all EM debt asset classes is that the performance of each sub-asset class is differentiated through the broader economic and monetary policy cycle.

**EM debt – the great diversifier**

The differentiated behaviour of local currency debt portfolios, especially for non-US dollar based investors, reflects the distinctive factors driving returns: differing interest rate regimes, divergent economic cycles and currency fluctuations.

All things being equal, the quality of the local currency debt opportunity set has improved in recent years through the addition of India and China, the removal of Russia from the index, and underlying improvements in the fundamentals of other countries, as noted earlier. Further, it is clear from analysing the behaviour within this opportunity set that not all countries sing to the same tune. In broad terms, there are three cohorts: high-quality Asia, Central and Eastern Europe, and then the more cyclical markets. The upshot is that in addition to its low correlation to other asset classes, there are significant diversifying forces within this asset class.

The hard currency debt market today is also highly diverse, spanning oil exporters and importers, regional manufacturing hubs and services-driven economies across the globe. The increased importance of frontier markets offers the opportunity for investors to take meaningful – and diversified – exposure to a broad range of underlying return drivers. Over time, the opportunity set has become more geographically diverse, and experienced an increase in longer-duration issuance from investment-grade issuers.

The different interplay of each of these EM debt asset classes also offers a diversification benefit that is not widely recognised.

Figure 5: Correlation between EM and DM assets (Jan 2003 - Dec 2024)

| | | EM hard currency sovereign | EM local currency sovereign | Global aggregate | Gilts | UK investment-grade corporate |
|---|---|---|---|---|---|---|
| GBP perspective | Sov HC GBP | 1.00 | 0.77 | 0.74 | 0.36 | 0.38 |
| | Local debt GBP | | 1.00 | 0.59 | 0.26 | 0.33 |
| | Global agg GBP | | | 1.00 | 0.51 | 0.17 |
| | Gilts | | | | 1.00 | 0.57 |
| | UK IG | | | | | 1.00 |

| | | EM hard currency sovereign | EM local currency sovereign | Global aggregate | Bunds | EUR investment-grade corporate |
|---|---|---|---|---|---|---|
| EUR perspective | Sov HC EUR | 1.00 | 0.71 | 0.71 | 0.41 | 0.52 |
| | Local debt EUR | | 1.00 | 0.38 | 0.25 | 0.49 |
| | Global agg EUR | | | 1.00 | 0.67 | 0.33 |
| | Bunds | | | | 1.00 | 0.62 |
| | EUR Corp IG | | | | | 1.00 |

Source: Ninety One, Bloomberg, JP Morgan, as at 31 December 2024. EM hard currency sovereign: JPM EMBI. EM local currency sovereign: GBI-EM GD. Global aggregate: Bloomberg Global Aggregate. Gilts: FTSE 5-15 Yr Gilts. UK investment-grade corporate: from January 2003 to June 2007, Bloomberg Sterling Corporate Bond Index; from July 2007 onwards, iBoxx GBP Corp 1-15. The source for the Bund data is JPMorgan GBI Germany index and for EUR investment-grade corporate is Bank of America Euro High Grade Corporates. For further information on indices, please see important information section.

**In summary**

Bond markets are in a new regime – one where old distinctions between EM and DM debt no longer hold and investors can no longer expect asset classes to behave as they have done historically. In short, we have seen the 'EM-ification of DM'.

Asset allocation approaches need a reboot in a world where portfolio diversification has never been such a virtue, but the means to achieve this have changed. In this context, and supported by an enduring, positive shift in fundamentals, EM debt deserves a place at the global investor table.

*Peter Kent is Co-Head of Emerging Market Fixed Income at Ninety One, an active, global investment manager. This article is provided for general information only should not be construed as advice.*

***General risks:** The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments. Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made. Target returns are hypothetical and do not represent actual performance. Actual returns may differ significantly. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments. **Specific risks:** Emerging market (inc. China): These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.*

## Top 5 investment reads

### UniSuper

As we close out the financial year, a roller coaster year with many learning moments, our investment team is pleased to share some of their favourite all time investment reads. Many of these inform how we look and think about our approach to investing our members' life savings. Our reading list is long, here we've picked five stand-out books that you might enjoy. Many lessons can be learned from Charlie Munger, Warren Buffett and Peter Bernstein, and of where corporate America found itself back in the '80s.

Please join the conversation and let us know some of your favourites in the comments below.

***Book: Buffett: The Making of an American Capitalist***

*Author: Roger Lowenstein*

First published in 1995 and still a best seller, author Roger Lowenstein provides an insight into the remarkable life of Warren Buffett, the greatest investor off all time, and his investment approach. Buffett recently announced his retirement at the ripe old age of 94. Since 1965, his investment vehicle, Berkshire Hathaway, has returned 20% compound per annum, an extraordinary track record. Buffett led Berkshire Hathaway for 55 years, he is very much admired by our investment team.

***Book: Poor Charlie's Almanack***

*Author: Complied by Peter D. Kaufman*

Learning is a lifelong journey best done through multiple disciplines as the differing perspectives help in making better decisions. That's the key takeaway from this wonderful compilation of talks given by legendary investor and Berkshire Hathaway's deputy chairman, the late Charlie Munger. Compiled by his long-time friend Peter Kaufman, it includes valuable lessons across a range of topics including investment strategy, philanthropy, and living a rational and ethical life. It's also available as an audio book.

***Book: Against the Gods: The Remarkable Story of Risk***

*Author: Peter L. Bernstein*

"Risk touches on the most profound aspects of psychology, mathematics, statistics and history" says the late Peter Bernstein. Here Bernstein takes us on a journey to explore man's efforts to understand risk and probability going back to ancient times. The book lays the groundwork for how the finance industry thinks about risk in investment portfolios and provides great insight into our need to try to control, predict and better understand risk. Risk isn't just a whim of the gods, it's inescapable and central to investing.

***Book: Barbarians at the Gate***

*Authors: Bryan Burrough and John Helyar*

A behind the scenes look at the fight to control RJR Nabisco during October and November 1988, written by two *The Wall Street Journal* reporters. The book takes us to corporate America and Wall

Street in the 1980s focusing on what was the largest takeover in Wall Street history, it was later made into a movie. It's a lesson on leadership and governance highlighting the destructive nature of excessive leverage, short term business plans and misaligned management incentive packages.

***Book: When Genius Failed: The Rise and Fall of Long-Term Capital Management***

*Author: Roger Lowenstein*

First published in 2000, *When Genius Failed* is a postmortem on the collapse and bailout of the hedge fund LTCM, which prided itself on its quantitative prowess and boasted Nobel Prize winners amongst its staff. The story reinforces the one great lesson of all financial disasters – the danger of leverage. Financial markets are inherently volatile, and it is leverage that transforms price volatility into the permanent loss of capital. Additional takeaways include that intellectual superiority, and the rigorous application of mathematics and science alone doesn't guarantee success in investing. In light of the financial crisis that followed, it also raises question about the moral hazard of bailouts.

Happy end of financial year, we look forward to sharing more insightful content over the coming months.