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Editorial

Recently, I watched the hit Netflix series, *Adolescence*, and it was both confronting and depressing.

The show is about a 13-year-old boy accused of murdering a classmate. Well-known UK actor, Stephen Lawrence, plays the boy's father and he also co-created the show. He says the inspiration for *Adolescence* came from reading about a recent spate of teenagers killing other teenagers and he wanted to explore why that's happened.

One of the show's central themes is how the increasing amount of time that teenagers are spending online may be driving them towards behaving in ways that would otherwise seem unfathomable.

Another theme is how parents are often in the dark about what their children are doing online. They assume their kids are safe spending long periods at home on devices but how safe are they really?

The show seems to suggest that parents need to be more responsible for what their kids are consuming online.

However, it got me thinking about the responsibility of the technology itself, and how the costs of technology seem to be piling up.

A virtual world

After watching the show, I was chatting with a good friend who's a tennis coach at a posh private school in Sydney. For those who don't live in Sydney, the weather here of late has been atrocious with some of the worst rainfall I've ever experienced.

For a tennis coach, that's normally bad news as it prevents outdoor tennis play. However, my friend relayed how he'd been using virtual reality (VR) glasses with his students and it had proven popular. He

said VR could give you a great workout though it was suited to intermediate and advanced players who knew how to play the game already.

VR use for tennis lessons certainly surprised me. However, it shows some of the tremendous benefits that newer technology can bring.

Another related story: I've started playing chess with my teenage daughter. I've played chess on and off for a long time while my daughter is new to the game.

In my youth, chess was played on a board and you went to cafes and clubs to play matches with other people.

Not today. Almost all chess nowadays is played online and almost all the training happens online too. Players review games online and AI can tell them which moves are best at different times.

In many ways, chess has been a forerunner to what's happening in AI today. As far back as 1996, the 'Deep Blue' computer program beat reigning world champion, Garry Kasparov, in a game, though Kasparov won the overall series of matches. A year later, Deep Blue won the series against Kasparov.

There are many advantages to chess going online. It's made the game convenient to play. It's increased the supply of players that you can compete against. It's made learning and training both easier and more granular.

At what price?

The benefits of bringing games like tennis and chess online are obvious. The costs less so, though in my view these are adding up.

First, more screen time means less time being spent in the real world with real people. This runs counter to our evolutionary roots with our ability to get along in large groups distinguishing us from other groups in the animal kingdom.

Second, many studies now suggest that increased and unmoderated online or screen time - especially among children and adolescents - can reduce empathy and compassion, primarily by impeding facial recognition, real-world social skills, and non-verbal emotional cues. MIT's Sherry Turkle calls social media an "anti-empathy machine" because it creates a friction-free environment that eliminates the very struggles needed for emotional growth.

Third, there are also a growing number of studies connecting increased screen time to higher incidences of mental health issues, especially among younger people. This has been well documented by US social psychologist and author, Jonathan Haidt, who argues that increased screen time and social media use have contributed significantly to rising mental health problems among youth by fostering social comparison, undermining real-world connections, and exposing teens to emotionally charged content designed to keep them hooked, leading to anxiety, depression, and loneliness.

What can be done about it?

The downsides of technology are getting more attention. Recently, the Albanese government included YouTube accounts in its ban on access to social media for those under the age of 16.

I'm not sure if bans are the answer, though. As with any bans, people will always find ways around them.

I'm also not sure that putting more of the onus on parents is the answer, either. There's only so much that parents can do.

Part of the answer must be to give more responsibility for preventing harm to the technology companies themselves. For what they show. For whom they show it too. For knowing who is accessing what. For the privacy issues that come with humans using data.

Europe has led the way with greater regulation of the tech giants, forcing them to pay tens of billions for breaking the rules. The likes of the US and Australia have lagged. Perhaps it's time to play catchup?

What it means for investors in technology

This isn't to say that you should sell your tech stocks. Far from it. These companies offer considerable benefits for customers. That's helped them create trillions in shareholder value.

However, I do wonder if there is a tipping point where the public focuses more on the harms from various technologies, and that forces governments into more action.

Thus far, people have been happy to give up their privacy, their workplaces, and their communities for the convenience and ease of being online. There may come a time when that's less the case and investors should be attuned to the prevailing winds to ensure their technology bets hold up.

On technology, hedge fund manager **Harris Kupperman** - or 'Kuppy' as he's well known as - has one of the most important articles that you're likely to read in any publication this year. In his article, he lays out the numbers in detail for [why AI returns won't live up to the hype](#) and a bursting of the bubble may not be far away.

In my article this week, I look at the extraordinary surge in migration to Australia over the past two decades and how it's helped kill economic productivity and put unprecedented strains on our housing market. I suggest it's time we [follow Canada's lead and cut migration](#) to more manageable levels.

James Gruber

Also in this week's edition...

Larry Bricks explores how today's housing investors are betting on the [numerous tailwinds of the past 50 years](#) – falls in interest rates, a revolution in household formation, mortgages reaching entire working life lengths and significant wage growth – continuing in coming years. He thinks it's a tall ask.

Another ASX reporting season is almost done and **Jun Bei Liu** says we may be through the worst for company earnings. She says there's [room for optimism](#) as rates are cut and global trade starts to normalise.

Bunnings is a storied brand in Australia but the stock of its owner, Wesfarmers, is incredibly expensive. **Stuart Cartledge** says a [cheaper and better way to play the growth](#) in Bunnings may be via A-REIT, BWP Trust. That's especially after some recent changes at the company.

Bank hybrids are being phased out from 2027 though investors may not have as much time to sell their holdings as they think because liquidity is likely to soon dry up and that will impact pricing and exit points. **Tony Dillon** runs through how to [create a synthetic hybrid strategy](#) that can offer similar returns but with greater control and clearer understanding of risks.

Nvidia's CEO is selling company stock. Though it's relatively small, it may be a good time to [pause and ask why](#), according to **Lawrence Lam**. That's particularly after the seismic run up in the share price over the past few years.

Finally, in this week's whitepaper, **MFS** has [five key market themes](#) for investors for the remainder of this year.

Why we should follow Canada and cut migration

James Gruber

A pop quiz: What percentage of migrants to Australia last year were skilled workers? I asked this question to a work colleague and her answer was 50%. I think that would be about ball-park consensus.

The actual number: 13%. And that's split between skilled workers on permanent visas (6%) and skilled workers on temporary visas (7%).

There's a widespread perception that the bulk of migrants to Australia are skilled workers, yet these numbers show it's anything but. It's one of many myths built around the issue of migration.

I'm going to explore these myths as well as why both sides of politics have been big boosters of a 'Big Australia' policy that's helped kill economic productivity and put unprecedented pressures on our housing market. It's time we followed Canada and reduced migration to more manageable levels.

Until recently, migration had been a major net-positive

This article isn't about politics. It's not about being left-wing or right-wing. And it's certainly not about being anti-immigration.

Migrants have helped build modern Australia. The initial convicts who came here were young and hardworking and quickly turned the country into a thriving colony. The 1850s gold rush saw a further surge in migrants, many of whom were looking to get rich, and even if they didn't, ending up staying anyway.

Post World War Two, we had the rush of European migrants who started with little and yet helped turn Australia into a prosperous economy. This was helped by the influx of Asian migrants from the 1970s, who now make up a considerable portion of our population.

Migration has been a major net-positive for Australia.

That is ... until now.

What's changed?

Over the past 20 years, both major political parties have advocated a 'Big Australia' policy that's seen an unprecedented surge in our population.

From 1980 to the mid-2000s, population growth in Australia averaged 1% to 1.5% each year. From the mid-2000s, that stepped up to 1.5% to 2%. In recent years, population growth has been even higher.

For instance, population growth was 1.13% in 1984, 1.0% in 1994, a little higher at 1.32% in 2004, a lot higher at 1.75% in 2014, and 1.7% last year.

The 2024 figure was a decrease on the 2023 growth number of 2.5%, which was the highest in more than a century.

As the chart shows, a significant increase in the number of migrants to Australia has accompanied the step-change in our population growth.

Last year, net overseas migration was 341,000, 87% higher than the 182,000 of a decade earlier.

Who are these new migrants?

As alluded to earlier, few of them are skilled workers. The number of skill workers on permanent visas hasn't moved much over the past 20 years.

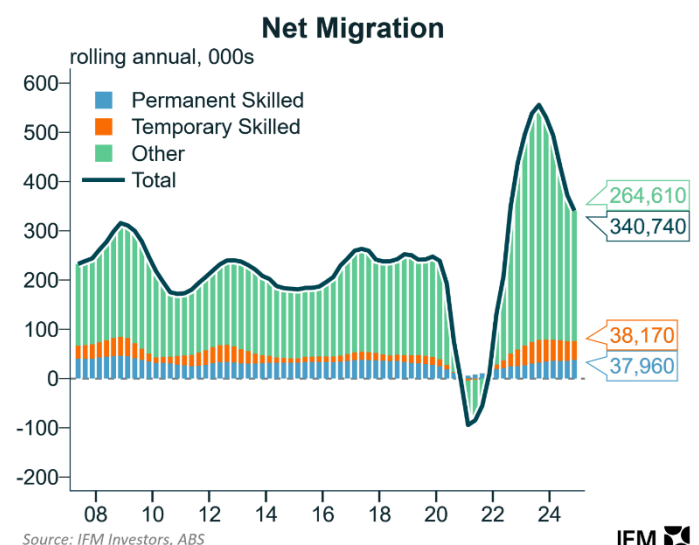
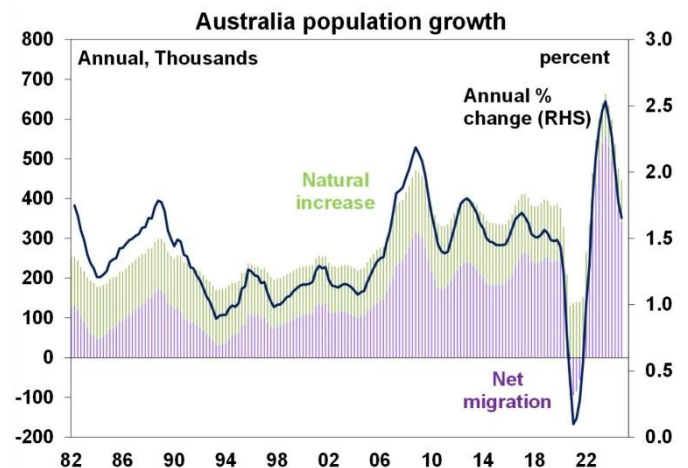
However, there has been a gradual increase in skilled workers on temporary visas. These visas are given so people can temporarily live and work here to fill specific skill shortages or gain work experience, often with a pathway to permanent residency for some categories. They're often sponsored by a local employer.

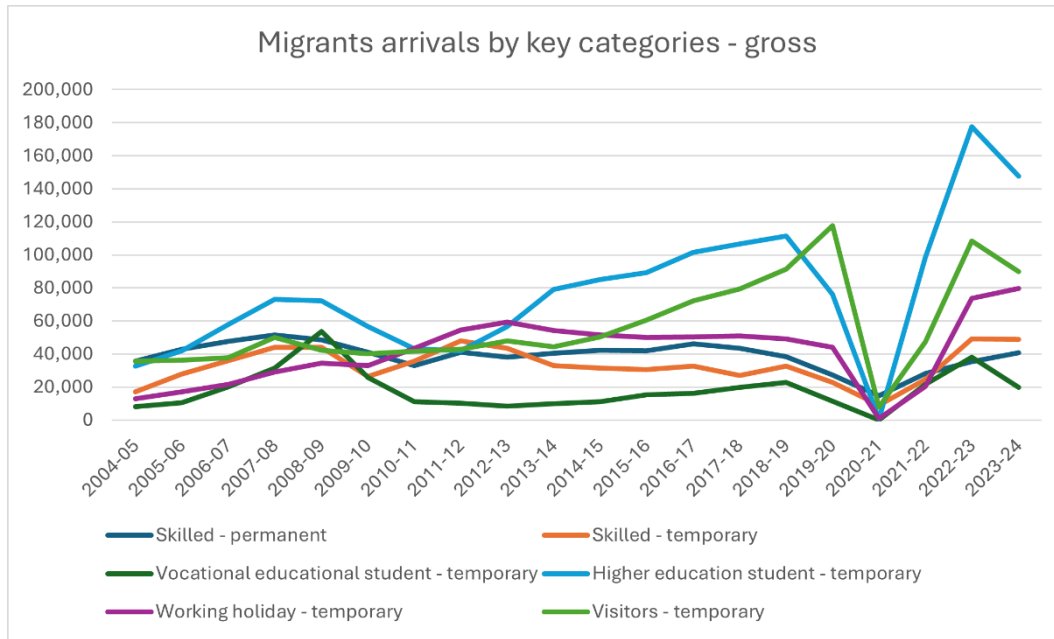
Yet, the biggest driver for increased net migration has come from those on working holiday and student visas.

The number of working holiday visas has risen from around 13,000 in 2004-2005 to 80,000 in 2023-2024. These visas now outnumber those given to permanent and temporary skilled workers.

Working holiday visas are for young people to come here and work for up to a year, often in seasonal industries like agriculture and hospitality.

Student visas are the other driver behind the surge in net migration. In 2004-2005, 33,000 students on higher education visas came to Australia. By the last financial year, that had increased to almost 148,000, a 4.5x increase. And last year's figure was down from 177,000 in 2022-2023. Universities have had a good time of it!





Source: ABS, Firstlinks

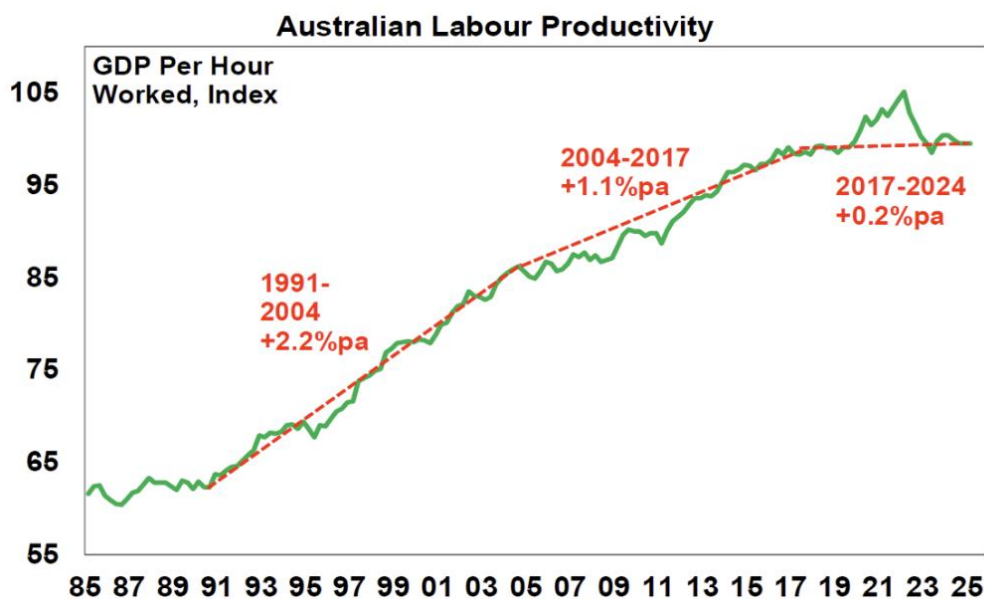
It's now estimated that there are around a million international students in Australia. About half of them are at universities and the other half are studying at non-degree institutions like language and hospitality schools.

It's impacting our economic fortunes

The surge in migration numbers has coincided with a flatlining in economic productivity and per capita GDP over the past decade. Is it just a coincidence? I don't think it is.

That's because students and those on working holiday visas make up about 10% of Australia's labor force today. According to a [recent study](#), they're mostly in low-skilled jobs, such as food delivery, cafes, hotels, removals, and construction.

The increase in the pool of workers has undoubtedly depressed wage growth and hit productivity.



Source: Shane Oliver, AMP

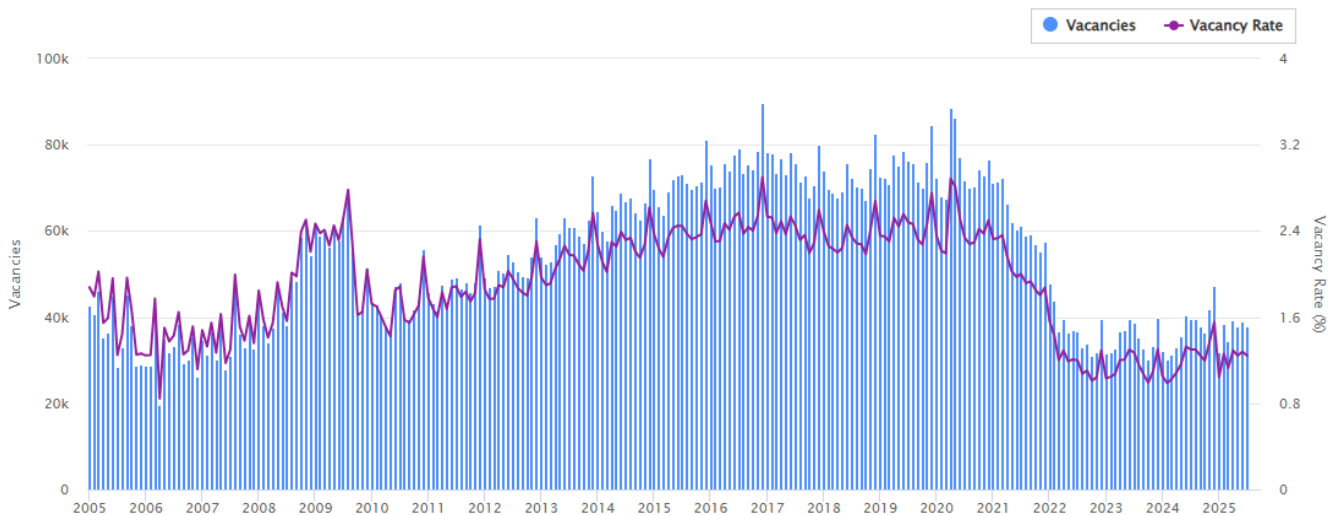
It's impacting housing too

It's unlikely that the increase in low-cost labor has impacted house prices much. Though, it's almost certainly had a larger effect on rental housing.

The national rental vacancy rate was just 1.2% in July this year. Currently, it's extremely difficult to find rentals in Perth, Adelaide and Brisbane – all with vacancy rates under 1%. The situation is slightly better in Sydney and Melbourne, with rates of 1.5% and 1.8% respectively.

Residential Vacancy Rates

Source: SQM Research



The national vacancy rate peaked above 3.2% during Covid and periods in the decade before, though now languishes at near record lows.

Canada shows Australia the way

Canada may offer a path forward to boost Australia's economic fortunes and ease the pressures on our housing market.

Until last year, Canada had run the largest migration program in the developed world. In 2024, population growth peaked at almost 3%.

This led to plummeting per capita GDP and a record housing shortage that caused a rental crisis.

After a backlash, the then Prime Minister, Justin Trudeau changed course. In a video address in November last year, he outlined a plan to drastically cut migration over the next three years:

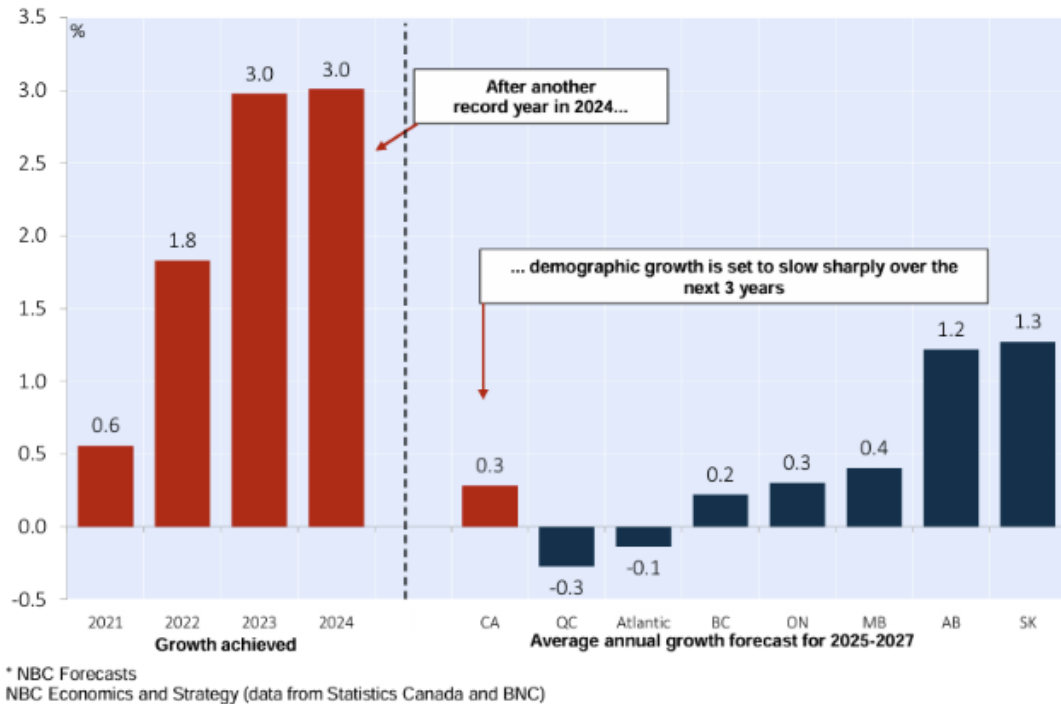
"In the last two years, our population has grown really fast, like baby boom fast. So we're doing something major. We're reducing the number of immigrants that will come to Canada for the next three years. Bad actors, like fake colleges and big chain corporates, have been exploiting our immigration system for their own interests".

Trudeau's aim was to stabilize the population at 2024 levels out to 2027. The new government has followed through with his plan.

Consequently, Canada's quarterly population growth plunged to 20,100 in the second quarter of this year, down from more than 400,000 per quarter seen at the peak in 2023.

Canada: A major brake on immigration

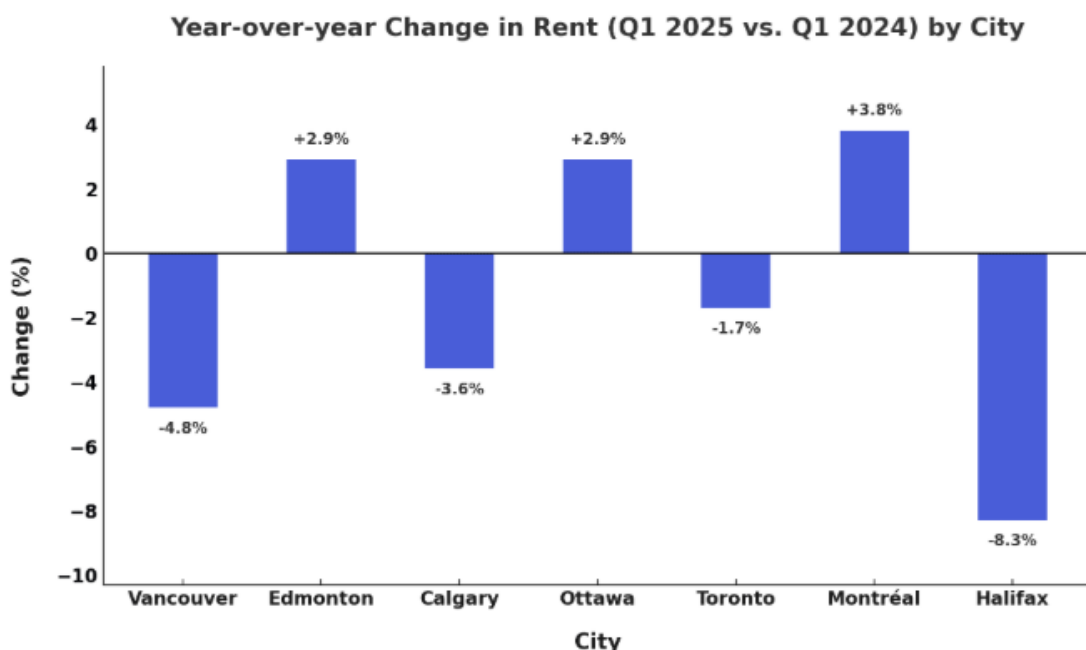
Annual population change: Actual figures and projections for 2025-2027* (in French)



Canada has kept their flow of permanent residents relatively steady; the cuts have come from temporary migrants. In 2023, temporary net migration numbers were above 300,000 per quarter, and they've now turned negative.

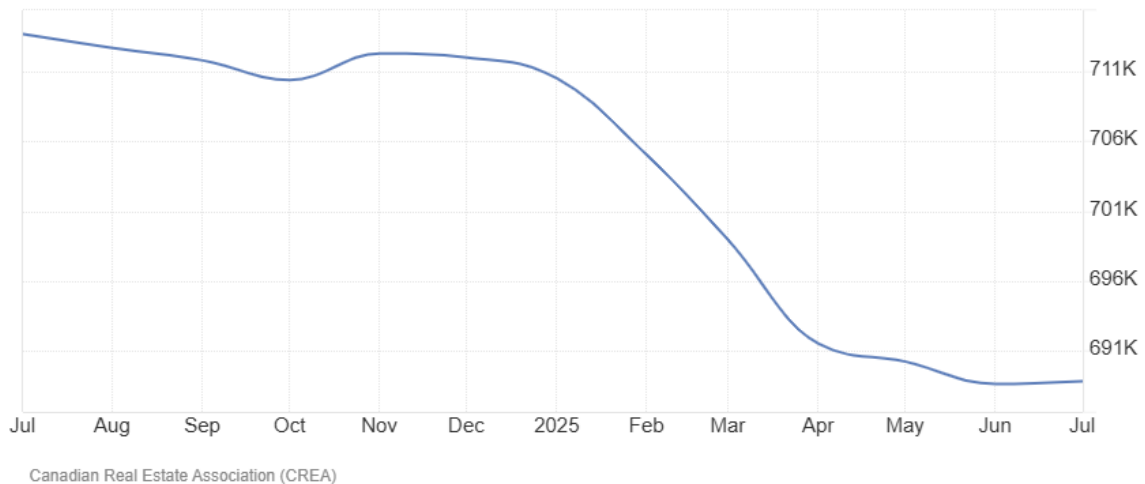
Overall population growth has eased to 1.24% in the most recent quarter, down from the 3% levels of 2023.

The migration cuts have had an immediate impact on the housing market. Asking rents across Canada have fallen for eight straight months. And house prices have declined by close to 3% this year.



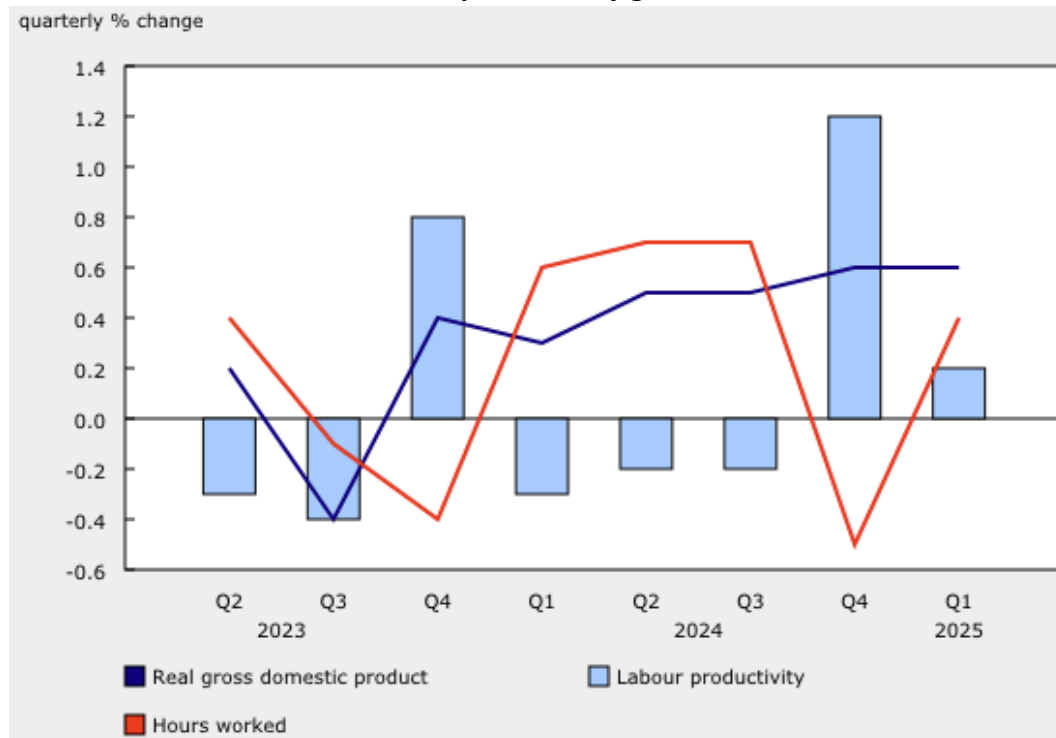
Source: Canada Mortgage and Housing Corporation

Canada average house prices



Productivity growth has also perked up after being in the doldrums during the previous two years.

Canada productivity growth



Source: Statistics Canada

Why the Labor Government doesn't utter the 'M' word

At the government's recent productivity summit, migration didn't get a mention. Why the reticence?

Over the past two decades, both parties have wholeheartedly endorsed increased migration. In my view, they have done it principally for cynical reasons.

First, boosting migration lifts headline GDP numbers. This gives governments the opportunity to market themselves as having 'grown the economy'.

GDP comprises population growth plus productivity growth. The surge in our population has more than offset the stagnation in productivity growth.

But while headline numbers have been positive, they've largely been a mirage. Per capita has flatlined for many years. In other words, at an individual level, GDP hasn't gone anywhere.

Second, migration also lifts housing demand and house prices. As mentioned previously, it's likely a minor driver, though it's there, nonetheless. And the government loves anything that drives house prices higher!

A caveat

I'm not suggesting that cutting migration is the sole answer to our economic and housing woes. Though it's a piece of the puzzle that's worth more thoughtful discussion.

James Gruber is Editor of Firstlinks.

Simple maths says the AI investment boom ends badly

Harris Kupperman

I've been at this investing game a long time. Long enough to see cycles repeat themselves, cycles that I literally thought I would never again see. Yet in finance, everything repeats. You just need to keep your discipline and recognize things for what they are.

Let's take a step back and start with a bit of a disclaimer. I'm an old-school investor. If you called me a boomer in my mentality, I wouldn't really disagree. I still believe that things like cash flow and return on capital matter. In fact, they're my north star. As a result, I often miss new trends, as I refuse to pay up for [profitless prosperity](#). Sometimes, a hyper-growth company amazes me when it actually grows into its valuation, though that's rarer than you'd think. Usually, cash flow is king, ROIC is the queen and everything else is simply stock promotion. Hence, my strong sense of skepticism towards anything new.

With that in mind, I've watched as AI went from an interesting parlor trick for making memes, to something that's increasingly integrated into my daily workflow. I use it a lot and get huge value from it. I am not here to belittle AI, it's the future, and I recognize that we're just scratching the surface in terms of what it can do. I recognize all of this. I also recognize massive capital misallocation when I see it. I recognize an insanity bubble, and I recognize hubris.

I'm going to use a bunch of numbers here that I believe to be directionally correct, I've spoken with industry players who have somewhat confirmed these numbers. I fully expect that other industry insiders will quibble with these numbers, but if I feared criticism, then this blog would be no fun.

Let's start with total datacenter spend for 2025. Insiders think it's going to clock in at around \$400 billion. If it misses that figure, it's only because of




bottlenecks that slow buildouts. Of course, it could also exceed that number, as those who are spending on these datacenters are beyond desperate to get them operational. For the sake of this piece, let's use the \$400 billion number, though it is likely a bit higher than where things may end up due to delays in construction.

What's a datacenter made of?? There are three main components; the building and land at roughly a quarter of the cost, all the power systems, wiring, cooling, racking, etc. at about 40% of the cost, and then the GPUs themselves at about 35% of the cost. I am sure I'm off by a few percent in these categories, but I'm relying on AI and we all know it's still imperfect. I'm assuming that the building depreciates over 30 years, the chips are obsolete in 3 to 5 years, and then the other stuff lasts about 10 years on average. Call it a 10-year depreciation curve on average for an AI datacenter. Which leads you to the first shocking revelation; the AI datacenters to be built in 2025 will suffer \$40 billion of annual depreciation, while generating somewhere between \$15 and \$20 billion of revenue. The depreciation is literally twice what the revenue is.

Now, here is where it gets complicated as there is no gross margin in the AI game. They're literally giving away the technology and occasionally getting a nickel back for every dollar they give away. Calculated as a gross margin, it would be -1900%. This is the nature of trying to drive adoption and get customers attached to a product. VC has a long history of funding this sort of thing, as long as the ROIC eventually flips positive. With nothing to go on, I'm going to take an optimistic guess here, and say that ultimately, the margins get to positive, and then gradually creep up towards 25%. Why 25%?? I have no idea. It just sounds right because electricity is really expensive and you need a lot of expensive tech nerds to manage the equipment. Honestly, no one really knows where gross margins eventually land, so let's just run with it, so that we can do some simple math. The question is, how much revenue do you need to cover the depreciation cost of the datacenter??

By my math, you need \$160 billion of revenue at that 25% gross margin, which gives you \$40 billion of gross margin against \$40 billion of depreciation. Now, remember, revenue today is running at \$15 to \$20 billion. You need revenue to grow roughly ten-fold, just to cover the depreciation. Except, no one does anything to break even in business. For a new technology like this, with huge obsolescence risk, what unlevered ROIC would you demand?? Would you want a 20% ROIC??

←
Fast ▾
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If you sell a dollar for a nickel, what is your gross margin percentage?

Answer

To calculate the gross margin percentage, use the formula:

$$\text{Gross Margin Percentage} = \left(\frac{\text{Selling Price} - \text{Cost Price}}{\text{Selling Price}} \right) \times 100$$

Here, the selling price is \$1.00, and the cost price is \$0.05.

$$\text{Gross Margin Percentage} = \left(\frac{1.00 - 0.05}{1.00} \right) \times 100 = \left(\frac{0.95}{1.00} \right) \times 100 = 95\%$$

So, the gross margin percentage is 95%.

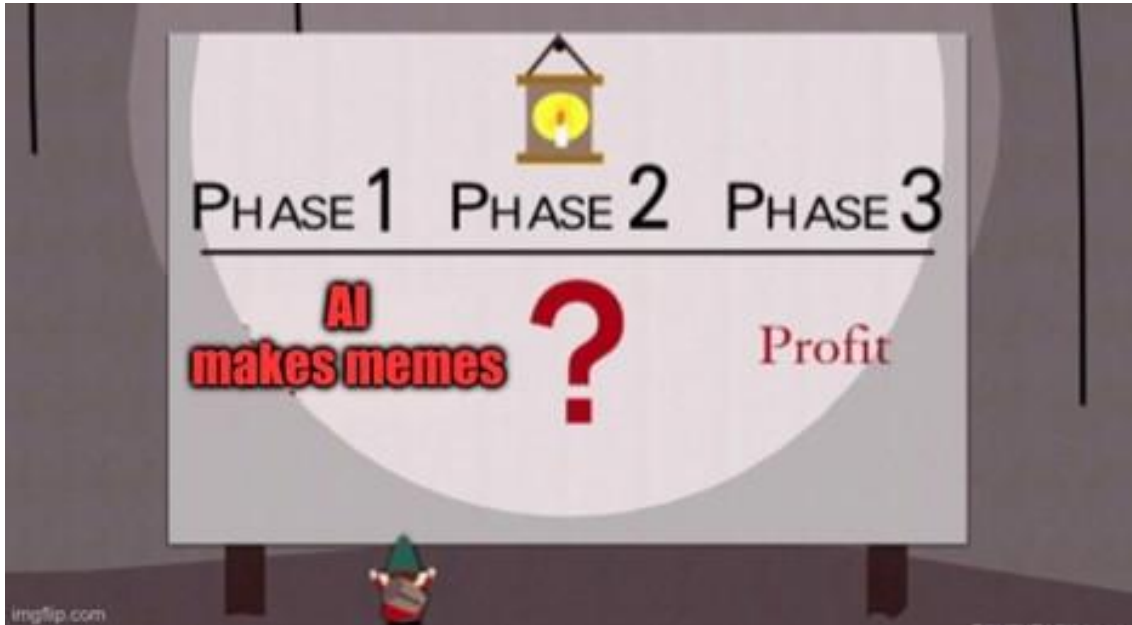
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Ask anything

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Hundreds of billions later, and AI is still useless when you ask it to review your math...

That's still dilutive to the ROIC for most of the largest capex spenders. Even at that dilutive ROIC, you'd need \$480 billion of AI revenue to hit your target return.



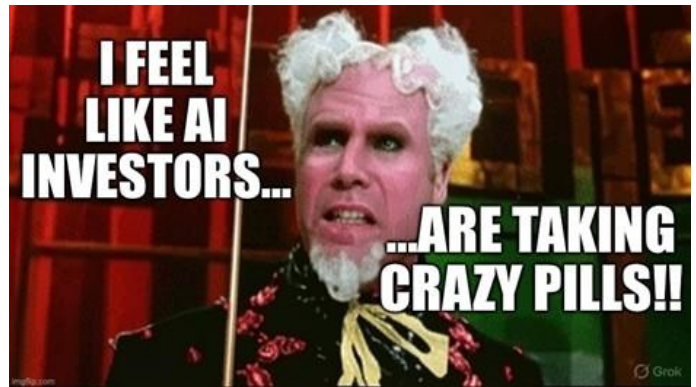
Now, I think AI grows. I think the use-cases grow. I think the revenue grows. I think they eventually charge more for products that I didn't even know could exist. However, \$480 billion is a LOT of revenue for guys like me who don't even pay a monthly fee today for the product. To put this into perspective, Netflix had \$39 billion in revenue in 2024 on roughly 300 million subscribers, or less than 10% of the required revenue, yet having rather fully tapped out the TAM of users who will pay a subscription for a product like this. Microsoft Office 365 got to \$ 95 billion in commercial and consumer spending in 2024, and then even Microsoft ran out of people to sell the product to. \$480 billion is just an astronomical number.

Of course, corporations will adopt AI as they see productivity improvements. Governments have unlimited capital—they love overpaying for stuff. Maybe you can ultimately jam \$480 billion of this stuff down their throats. The problem is that \$480 billion in revenue isn't for all of the world's future AI needs, it's the revenue simply needed to cover the 2025 capex spend. What if they spend twice as much in 2026?? What if you need almost \$1 trillion in revenue to cover the 2026 vintage of spend?? At some point, you outrun even the government's capacity to waste money (shocking!!)

Simply put, at the current trajectory, we're going to hit a wall, and soon. There just isn't enough revenue and there never can be enough revenue. The world just doesn't have the ability to pay for this much AI. It isn't about making the product better or charging more for the product. There just isn't enough revenue to cover the current capex spend.

Let's go back in time, almost three decades back. It was the late 1990s and I sent my first email. It was amazing. I then used AOL Messenger to speak with someone on a different continent. Think about the late 1990s and how innovative this was. Back then, the local telephone company would charge you extra if you made a call outside of your zip code, which was basically 10 miles away. To call a different continent would cost almost a Dollar a minute, yet here I was, speaking with someone on the other side of the earth. Think about how groundbreaking this was. It was the AI of its day. No wonder we had a huge bubble in this stuff, it was obvious that the internet would change the world.

While we all remember Pets.Com and the hundreds of other Dot Com startups that flamed away, it was companies like Global Crossing, spending tens of billions on fiber, that facilitated all of this. That fiber, amazingly, is still in use. Global Crossing went bankrupt along the way, as did many of its peers. They overestimated what people would pay for this fiber, not that it would eventually be used or valuable.



Today, I watch in awe (stupefaction really), as companies continue to throw endless resources at AI, I remember back to the Dot Com bubble and Global Crossing—fiber was the datacenter of that cycle, and Corning was the NVIDIA of its day (it lost 97% of its share price in the two years after it peaked).

I never thought we'd see another capex cycle like that one, a cycle that is almost completely devoid of revenue and profits. I really thought that the CEOs of today, educated with the lessons of the prior cycle, would never repeat the mistake of overbuilding at massive scale without revenue. Yet, here we are again. It's bewildering.

There's something else that this AI cycle reminds me of. Remember shale, where all the cash flow had to keep going into the ground, or oil production declined and the EBITDA covenants got tripped?? Now you have megacap tech stocks that are spending almost all of their cash flow on datacenters for fear of missing out. These asset-light businesses suddenly have the capital intensity of a shale company. Even worse, since losing the AI race is potentially existential; all future cashflow, for years into the future, may also have to be funneled into datacenters with fabulously negative returns on capital. However, lighting hundreds of billions on fire may seem preferable than losing out to a competitor, despite not even knowing what the prize ultimately is.

Carrying the thought process a step further; if there is no cash flow, and the returns on incremental invested capital are now deeply negative, why won't these megacap tech stocks eventually be valued like a shale company at 3 times OCF?? I know, it's crazy to even contemplate given current valuations, but if you're on a race to nowhere, and there's no offramp, shareholders will eventually pull the plug. We saw something similar in shale. Even the MAG7 will not be immune. Eventually shareholders will hate the capital destruction—even if at first, they cheered it on out of ignorance.

As I see it, either the arms race continues, and the megacap tech names are forced to lever up to keep buying chips, after having outrun their own cash flows; or they give up on the arms race, writing off the past few years of capex. Then again, maybe they do the write-offs, but only after their share prices are impaired as investors pull the plug. Like many things in finance, it's all pretty obvious where this will end up, it's the timing that's the hard part.

Then again, I'm just a boomer with some back-of-the-envelope math here. I don't pretend to understand technology. However, I'm a guy who understands cash flow, and there is none. I don't see how there can ever be any return on investment given the current math. Instead, I just see endless losses, and we're far enough along in this S-Curve, to think that we can at least start to model the returns—except they're horribly negative. If the management teams at these megacap tech companies

do not pull the plug on this adventure, eventually the shareholders will. I shudder to think about how nasty that could get for equity markets.

Remember when [I pointed out how cannabis companies were terrible investments](#)?? Usage is up dramatically since that posting, but the share prices have collapsed as no one has made any money off of it. This AI bubble is similar, but with more zeroes attached—so many zeroes, that between their capex spending, and the wealth effect that they’ve engendered, they have now effectively become a very disproportionate percentage of the growth of our economy.

At the end of the day, this AI cycle feels less like a revolution and more like a rerun. I’ve seen this story before—fiber in 2000, shale in 2014, cannabis in 2019. Each time, the technology or product was real, even transformative. But the capital cycle was brutal, the math unforgiving, and the equity holders were ultimately incinerated. AI will be no different. The datacenters will be built, the chips will hum, and some of the capacity will eventually prove mind-blowingly useful. But the investors footing the bill today will regret ever making the investment. That’s how bubbles end—not with a bang of innovation, but with the slow, grinding realization of negative returns, for years into the future. When shareholders finally wake up to the fact that AI isn’t generating cash flow, only burning it, the guillotine will fall—on management, on the stocks, and on the broader market that bet its future on a fantasy.

Caveat Emptor...

Harris Kupperman is the Founder & Chief Investment Officer of [Praetorian Capital Management](#), and author of Praetorian Capital’s public blog, [Kuppy’s Korner](#), from which this article has been reproduced with permission.

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Australian house price speculators: What were you thinking?

Larry Bricks*

Scott McNealy, the co-founder of Sun Microsystems, delivered the burial rites for the dot-com bubble with a quote that should be chiselled into the marble of big bank headquarters and the RBA board room.

Assessing his company’s own ludicrous stock price, he said:

At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock

at \$64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?

What were you thinking? The question hung in the air over the ruins of Silicon Valley in 2002. And it's a question one feels compelled to ask today, not of tech speculators, but of every Australian couple bidding with religious fervour at a coffee-cart adorned driveway auction.

The mathematics of finance are, after all, brutally indifferent. Whether you're buying a share in a tech company or the title to a three-bedroom brick veneer in Parramatta, the price you pay is inexorably linked to the returns you can expect. For stocks, this is obvious. Analysts pore over revenues and earnings, and the market understands that if a stock's price doubles without any change in the underlying business expectations, the future expected return has just been halved.

Yet in Australia, our national obsession with residential property seems to operate in a parallel universe, governed by its own magical laws. Nightly news bulletins breathlessly cheer on record prices, and the collective wisdom dictates that the phenomenal returns of the past will simply continue, regardless of the price paid today. Higher prices, it seems, are not a sign of lower future returns, but a validation that even higher returns are just around the corner.

But a house, for all its emotional and cultural baggage, is a financial asset. Its fundamental mathematics are undeniable, even if they are rarely calculated on the manicured nature strip of a Saturday auction. In the spirit of Scott McNealy, let's peel back the layers of this great Australian church and ask a few fundamental questions.

Deconstructing the golden era: The 7.5% triumph

The headline figure is impressive enough to be brandished by every vested interest in the media-property-industrial complex. From 1973 to 2024, Australian house prices delivered a total of **7.5% per annum**. A triumph. Case closed, surely?

Not so fast. Let's break that number down.

The first, most obvious villain is inflation. Over that same 50-year period, the average rate of inflation was **4.94% per annum**. Strip that away, and the *real*, inflation-adjusted return on housing was a far more modest **2.5% per annum**.

A basket of goods and services valued at \$	<input type="text" value="1"/>	in calendar year	<input type="text" value="1973"/>	, would in calendar year	<input type="text" value="2024"/>
cost \$	<input type="text" value="11.56"/>				
<input type="button" value="Reset"/>		<input type="button" value="Calculate"/>			
Total change in cost is 1055.6 per cent , over 51 years , at an average annual inflation rate of 4.9 per cent .					

RBA Inflation Calculator

So, where did this real return come from? The "earnings" of a residential property can be measured by the rent it can generate (or the rent a homeowner avoids paying). Over the same half-century, rents rose by **5.09% per annum** – almost perfectly in line with inflation. In real terms, *the fundamental earning power of a house has barely budged*.

The numbers are stark. The asset price grew in real terms by 2.5% a year, while the asset's earnings (rent) had **virtually zero real** growth. This leaves a gaping chasm of **2.5% per annum** that represents the "multiple expansion" of Australian housing. For 50 straight years, the price-to-rent ratio of the median Australian house has continued to rise. To use the share market analogy, the P/E ratio of 'Australia Housing Pty Ltd.' has been on a five-decade bull run.

Of course, a small portion of this price growth reflects genuine improvement. The median 1973 house is not the median 2024 house; we've paid for extensions, better kitchens, and an extra bathroom. But it doesn't account for the chasm. The overwhelming driver of that 2.5% annual expansion wasn't better houses; it was something else entirely. Something far more powerful.

The rocket fuel: How we learned to stop worrying and love debt

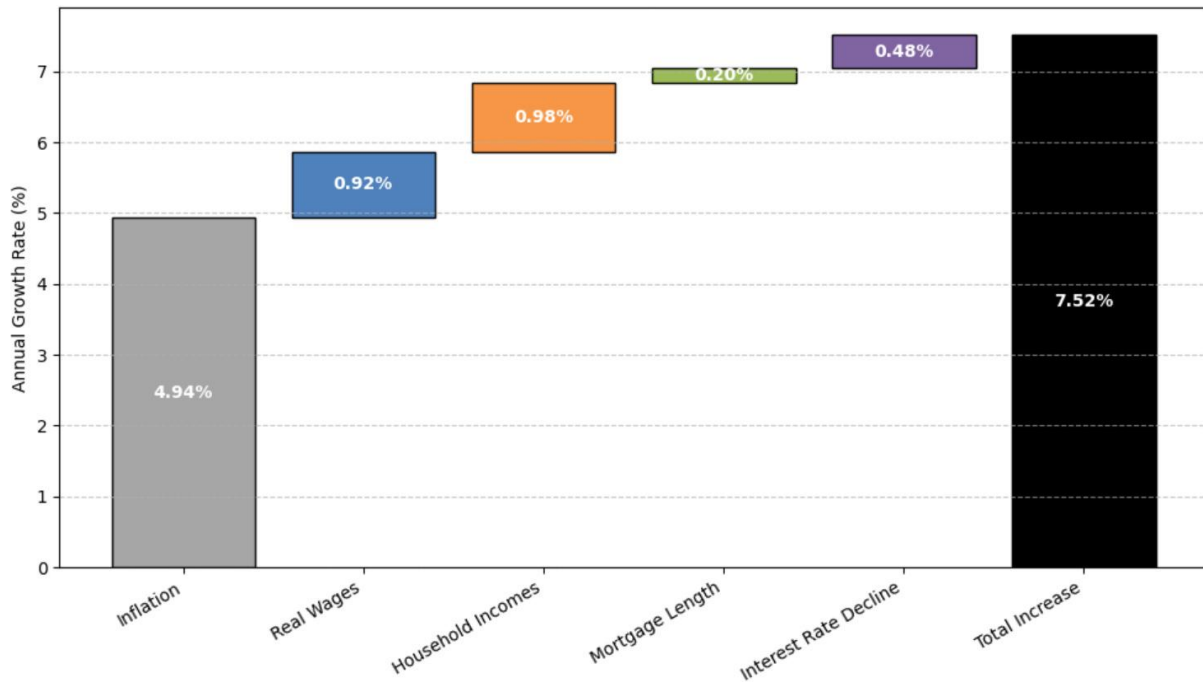
If the price of housing has outstripped its fundamental return (rent) for 50 years, what was filling the gap? The answer is simple: **borrowing power**. The price of a house isn't what it's "worth" in a vacuum; it's what the marginal buyer can convince a bank to lend them.

And for 50 years, the capacity of Australians to borrow has been supercharged by a confluence of economic and social forces that are nothing short of a historical anomaly. My own modelling shows that from 1973 to today, the maximum borrowing power of a household grew by an astonishing **7.5% per annum** – a figure that almost perfectly aligns with the 7.5% growth in house prices.

This rocket fuel was a cocktail of four key ingredients:

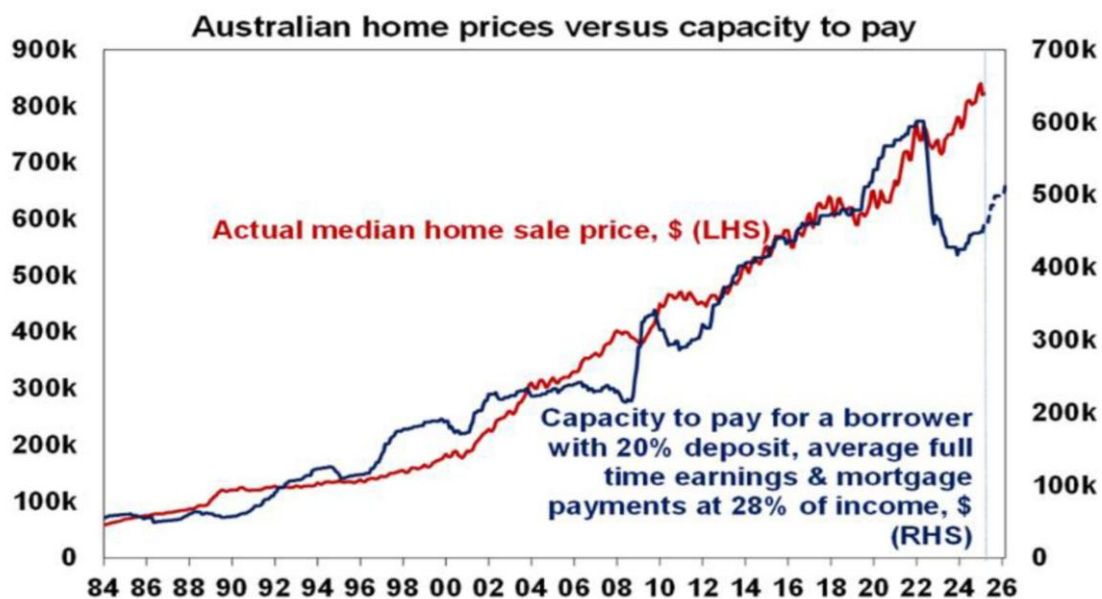
1. **Falling interest rates:** This is the big one. In the early 1970s, mortgage rates were high, and by the late 1980s, they were an eye-watering 17-18%. Today, even after recent hikes, they sit in the mid-single digits with recent home buyers speculating on lower rates. This secular decline in the cost of money from generational highs to generational lows was a one-off gift that massively inflated the present value of future incomes, allowing for astronomically larger loans. My model starting date of 1973 reduces the overall effect somewhat as interest rates were only 7.5% and the great interest rate rises of the late 1970s and 1980s had yet to begin.
2. **The second income revolution:** In 1973, the standard household for mortgage purposes had one primary income earner. Today, the 1.6-full time-income home buyer is the norm on average. This societal shift almost doubled the income base upon which banks would calculate serviceability, providing a step-change in borrowing capacity that can never be repeated.
3. **Longer mortgage lengths:** A mortgage in the 1970s and 80s was typically 20 years. The standard is now 30 years (some lenders offering longer!). This extension, while seemingly minor, amortises the principal over a longer period, reducing monthly repayments and allowing for a larger initial loan.
4. **Real wages growth:** Underpinning all of this was strong nominal wage growth, which averaged **5.86% per annum** over the period. Consistent **real wage growth** boosted borrowing power and gave confidence that the burden of a loan would inflate away over time.

This combination was explosive. As my model shows the combination of real wages growth, move to dual incomes, the extension of loan terms and the fall in interest rates increased borrowing power by 7.5% per annum, creating the massive fuel for house price growth that has underpinned the last 50 years:



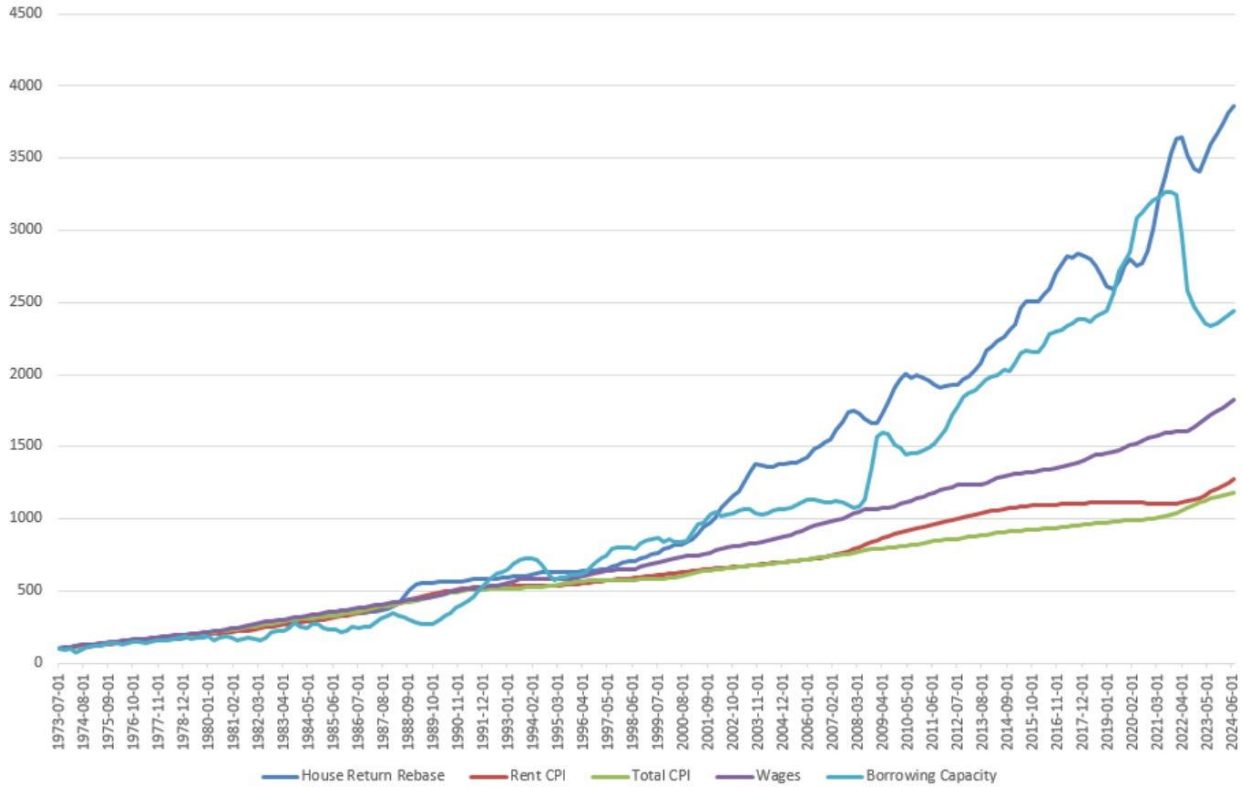
Annualised contribution to borrowing power increase

I'm not the first to point out the uncanny relationship between house prices and borrowing power, see the model below by AMP's Shane Oliver who shows that the increase in housing prices is closely matched by the increase in borrowing power of a borrower under the conditions shown below:



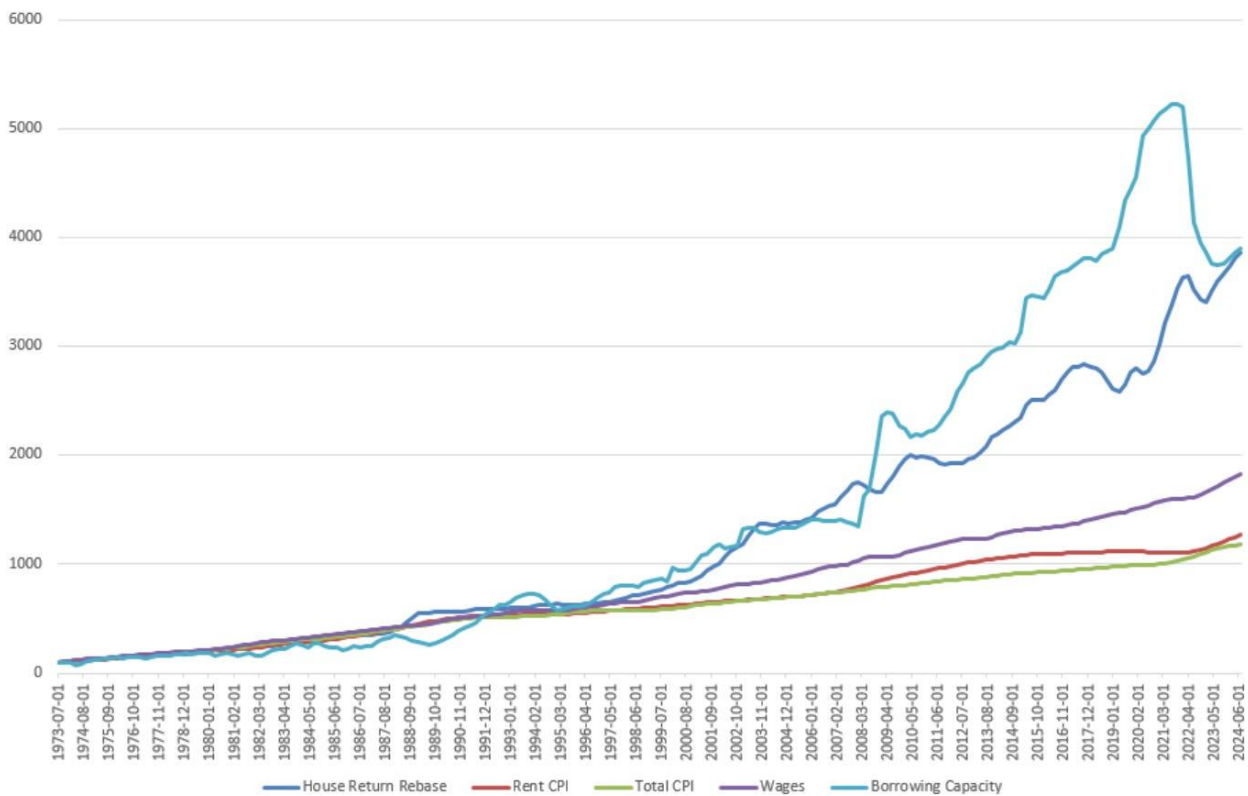
<https://www.amp.com.au/resources/insights-hub/olivers-insights-australian-home-prices-turning-back-up-again>

My own model mimics the AMP numbers almost exactly, when I constrain the borrowing power to a single borrower:



House Prices, Rent, CPI, Wages and Borrowing Capacity for a single income, 1973-2024

However, when multiple borrowers are added to the model over time culminating in 1.6 full-time incomes per household, the borrowing power increase is enormous:



House Prices, Rent, CPI, Wages and Borrowing Capacity for increasing incomes per household, 1973-2024

The fuel tank is empty: What now?

This brings us to the uncomfortable, McNealy-esque question for today's buyer. If the last 50 years of returns were driven by this unrepeatability of expansion of borrowing power, what will drive the next 50?

Let's examine the fuel tank.

- **Interest rates:** They cannot fall from 18% to 0.1% again. The tailwind is now, at best, a gentle breeze and, at worst, a headwind. Perhaps APRA will decrease or eliminate the 3% home-loan serviceability buffer - will we throw away prudential lending standards at the altar of higher prices?
- **Household incomes:** We are already a dual-income society. Are we banking on a third or fourth earner moving into the granny flat to service the mortgage? Is polygamy to become the new mandate that is needed for house prices to "sustainably grow", as is current Federal Government policy?
- **Loan terms:** Will we see Japanese style 40-year or 50-year mortgages? Not likely considering the average age of a first home buyer is now well into their 30's.

The rocket fuel is gone. The only significant driver left is **wage growth**. And with current wage growth of 3.8% and declining, the outlook is fundamentally altered. The expectation that house prices can continue to grow at 7%, 8%, or 10% per annum forever requires a belief that the fundamental factors which underpinned this prior growth exist into the future and **they simply do not**.

The high priests of property will point to other factors: government schemes like Help to Buy, the wave of foreign buyers, or chronic supply shortages. And these are real factors. But they are merely tinkering at the edges. A government scheme that helps a few thousand people is not the same as a structural change that allows *every household in the country* to borrow more. A supply shortage may put a floor under prices, but it cannot, by itself, generate the kind of capital growth we have come to see as a birthright.

This is not a prediction of a crash. It is a prediction of a fundamental change in character. The era of housing as a speculative get-rich-quick scheme, powered by the ever-expanding balloon of debt, is likely over. The future of Australian housing is one where returns are tethered, for the first time in a generation, to the fundamentals: the sluggish growth of rents and wages. Some regions or cities will do better than others. The price increase in south-east Queensland at the expense of stagnating Melbourne as mass interstate migration has occurred since the pandemic is proof enough. But to assume that home prices in aggregate will mimic the past is a step too far.

There is no shortage of highly leveraged speculators who have significant negative cash flows servicing jumbo property loans. There are endless ads on social media with financiers and buyers agents plugging 7-10% annualised future returns into "calculators" showing what a sure bet leveraging to the maximum and buying as many properties as possible is. There is a whole shelf dedicated in the Finance section of your local bookstore to this strategy. The soothing balm for this kind of speculation, which **has been highly successful** for the last 50 years, has been that the capital growth has far outstripped the tax-deductible negative cash flow. To them we must ask, in the spirit of Scott McNealy:

You are betting that the unrepeatability of the last 50 years is, in fact, repeatable. You are betting on another collapse in interest rates, another revolution in household formation, mortgages reaching

entire working life lengths and a return to booming wage growth that is nowhere in sight. Do you understand the assumptions you are making?

What were you thinking?

**Larry Bricks is a pseudonym for the author who is an Australian Engineer (with a Finance Masters) who writes about Finance and Economics. This article is reproduced with permission from the [Macro Torque substack blog](#) (@macrotorque).*

ASX reporting season: Room for optimism

Jun Bei Liu

Depending on who you ask, you'll get the answer you want on the ASX reporting season. There have been enough positive surprises, earnings upgrades and share price reactions to support a bull(ish) view and there have been enough disappointments, earnings downgrades and share price declines to support a bear(ish) view. But truth told, this is always the case. Reporting season usually has a little bit of everything depending on how you look at it.

Admittedly the reporting season has been volatile with several outsized share price moves by large and/or well held stocks in both directions (CSL, Cochlear, WiseTech, Domino's and James Hardie on the downside and Brambles, Computershare, ZIP, Seek on the upside). But behind this volatility has been an equity market that has ground its way higher, to be 3% above where it started the reporting season.

Considering where equity market valuations sat heading into reporting season (in the 95% percentile) and the broadly negative trend in post result earnings revisions, we think the equity market has shown an enormous degree of resiliency and believe this sets it up for further gains as we focus on what lies ahead rather than what is in the rear vision mirror. In addition, investors are always willing to look a little further ahead when there are signs that the economy is at an inflection point and/or when we are in a policy rate cut cycle.

Five key themes from results

But before we evaluate what the reporting season means for the equity market and portfolio positioning, there are several trends that emerged worth discussing:

First, results have been patchy which reflects an economic backdrop that is soft, but with pockets of strength. For instance, the consumer backdrop was weak with retailers generally facing soft consumer demand. However, those with dominant positions (such as JB Hi-Fi) were able to significantly outperform the broader category as were those who have been technology assisted such as CAR Group, REA Group or SEEK Ltd. The same can be said across the property sector where office (Dexus) remains weak but retail and residential (SGP and Scentre group) continue to perform well.

Second, revenue lines were broadly disappointing – reflecting a softer demand backdrop as well as headwinds from tariff uncertainty, US economic weakness and for a select few, disappointment from New Zealand exposure. However, this was offset by more resilient and often improving margins due to

pricing power (Telstra, REA Group), strong cost control or via companies which had previously implemented cost-out programs or applied more disciplined capital allocation (Coles, Fortescue, Downer, Worley). As a driver of upside, this should not be surprising given every company should have strong cost control when revenue is softening. However, applying this lever successfully can be difficult in real time.

Third, we have seen some green shoots from China, albeit very early days. This came from both the commodity and consumer driven areas but caution on the potential for further policy easing has also translated into a cautious outlook but with upside potential. We have seen the reverse from those with exposure into the US where there was a strong message that conditions were tough from James Hardie, Bluescope Steel, Sims and Reliance Worldwide where macro concerns and US economic weakness were major headwinds. We think this reflects pockets of weakness rather than broad economic weakness coming out of the US with ZIP producing an exceptionally strong result.

Fourth, across financials the banks generally produced solid results often impressing on lending growth and some net interest margin tailwinds (ANZ, Bendigo, Commonwealth and Westpac) while insurers also had solid pricing power leading to broad based upgrades. However, price action was not necessarily in line with the result surprise or quality of the print with CBA selling off post result but ANZ, Bendigo and Westpac rallying strongly.

Last, macro commentators are fixated on the absolute level of earnings growth and the magnitude of downgrades seen throughout the reporting season as constraints for the equity market outlook. We have a much more optimistic outlook and think that the market can trade meaningfully higher despite a modest earnings outlook given policy rates will fall further and macroeconomic conditions are set to improve.



Source: Morningstar

Why things are looking up

If anything, corporate Australia has emerged through an economic soft patch in solid shape. If this is the worst that it gets (and we think it is), then it's just not that bad. Similarly, it's very hard to be pessimistic when domestic conditions should get better over the coming 12 months, when both the consumer and

businesses will get a kicker from lower interest rates and where global uncertainty (particularly around trade) should also begin to normalise. These conditions are supportive of corporate earnings and while the incremental (year on year) gain might look modest, it's the direction of travel that matters most when we are at an inflection point rather than the magnitude of the gain.

Looking ahead, investors should be positioned to take advantage of a cyclical upswing and lower policy rates. Domestic consumer and industrial facing areas are on the cusp of an upswing, and they can outperform defensive areas where earnings safety and deliverability have been important. Similarly, we think the outlook will also improve for global cyclicals (particularly in the US) as the Fed resumes its rate cut cycle in September. For the past five months we have urged investors to stick with the equity rally despite concerns from every direction. The reporting season has shown us that Australian corporates are well positioned to leverage into an economic upswing and the focus should be on gaining exposure to this.

Jun Bei Liu is a co-Founder and Lead Portfolio Manager at [Ten Cap](#). Jun Bei is also a popular media personality and a highly sought after public speaker about her investment views. This information is intended for general use only. The information presented does not take into account the investment objectives, financial situation or advisory needs of any particular person.

A Bunnings play without the hefty price tag

Stuart Cartledge

Phoenix has long discussed the importance of assessing governance in its investment process. The much-repeated Charlie Munger quote “show me the incentives and I will show you the outcome,” rings as true today as when he first said it. As such, we have maintained a preference for internally managed vehicles over those managed externally by fund managers focused on growing their funds under management. In June, BWP Trust (BWP) announced a major transaction, comprising the internalisation of management, along with a lease reset for many of the Bunnings tenanted properties owned by the trust. These interlinked transactions removed two of the key “snags” that were holding back our investment in the stock.

Snapshot

In June, BWP Trust announced two major changes:

1. **Internalisation of management** – Ending its external management by Wesfarmers, BWP paid \$142.6 million (10.6x FY26 EBIT) to take control.
2. **Lease reset** – Extended lease terms on 62 Bunnings properties, increasing the WALE from 4.6 to 9.5 years, boosting property value by an estimated \$50 million.

Why it matters

- **Better alignment:** Internal management means decisions now serve unitholders directly, as opposed to serving the dual interests of unitholders and the external manager.
- **Cost savings:** Expected to save over \$5 million annually, with 2% dividend accretion in FY26.

- **Improved asset quality:** Longer leases make properties more attractive and saleable.
- **Capital investment:** \$86 million committed to property upgrades, with \$56 million rentalised and \$30 million co-funded with Bunnings.

Valuation and outlook

- BWP now trades at \$3.60/unit, a 5% discount to its pro-forma NTA of \$3.79/unit.
- Historically traded at a premium due to strong tenant (Bunnings) and reliable dividends.
- Due to the above changes, Phoenix has started buying BWP units again.

A brief history

BWP conducted an initial public offering (IPO) in 1998, initially comprising 16 hardware retail properties tenanted by Bunnings Warehouse and 4 properties under development, to be tenanted by Bunnings. These properties were vended into the trust by Wesfarmers, the owner of the Bunnings Warehouse business. 99 million units were to be issued to public shareholders, with 33 million units subscribed to by Wesfarmers, all at an offer price of \$1.00 per unit. Of the 20 initial properties, 15 are still owned by BWP. Their valuation has increased from \$133.1 million to \$644 million today, representing growth of 6% per annum. The IPO portfolio was vended to BWP at an initial yield of ~9.0%, whilst the most recent valuation showed a capitalisation rate of 5.4%. Despite this, much of the value appreciation has been driven by rent growth, with increases in rental payments growing 4.3% per annum for the properties held since IPO. Returns to shareholders have also been solid, with BWP producing a total return of 11.8% per annum since IPO.



Source: Morningstar.com.au

It is not only per share metrics that have grown. The units on issue have grown to 713.5 million, increasing more than 4x when compared to 1998. Much of this equity issuance did occur in capital raises above, or near net tangible asset backing. This growth may well have served BWP unitholders well, diversifying the portfolio and creating a more relevant entity, but it is worth acknowledging that on a per share basis, unitholders would have done perfectly well merely holding onto the initial portfolio. It is not questionable that the external manager of BWP, Wesfarmers, has very clearly benefited from this growth, as the recent transaction proves.

Coming to today

How much has Wesfarmers benefitted from BWP's growth? In June, BWP announced it would internalise management of the company, paying Wesfarmers \$142.6 million, representing 10.6x the management company's estimated 2026 Financial Year (FY26) earnings before interest and tax (EBIT). In FY26 this will produce cost savings to BWP of more than \$5 million, however this likely understates the true savings, as this includes transaction costs (associated with this deal) and does not include benefits of additional scale. The deal is also 2% accretive to the FY26 dividend. As fees are charged as a percentage of assets under management, growth under the old structure would naturally lead to an increase in management costs. Adding an additional Bunnings property to an internally managed vehicle, however, should barely make a difference to administration costs. This creates a better alignment of interests, meaning any decision to grow is more likely to be solely in the interests of unitholders, as opposed to serving the dual interests of unitholders and the external manager.

Connected to this deal is the announcement of an extension and reset of the lease terms of 62 Bunnings leases. This increases the weighted average lease expiry (WALE) of Bunnings tenanted properties owned by BWP from 4.6 years to 9.5 years. An independent expert has assessed that this is likely to increase the value of the properties owned by BWP by ~\$50 million. This may understate the true value uplift as it does not directly consider the optionality inherent in the leases. Bunnings tend to have options embedded in their leases to extend the lease. The options have a cap and collar of 10%, meaning the rent can only increase or decrease as much as 10% upon option exercise. As Bunnings controls the option, they will likely exercise it on any strongly performing stores and likely won't on any underperforming stores, which are more likely to be in inferior locations. With the WALE having decreased to 4.6 years this was a key concern. The lease extension does not extinguish this concern, however, it does push it out 5 years. Additionally, Bunnings properties with longer WALEs are meaningfully more saleable, with recent transactions very supportive of independent valuations.

The final element of the transaction is a commitment to capital expenditure by BWP. \$56 million of this is to be rentalised at a fair rate, whilst an additional \$30 million will be equally and jointly funded by BWP and Bunnings to improve some older properties. This amount won't be rentalised, however should support asset values and prove a commitment by Bunnings to stay in that space.

What to do about it?

For much of its history, BWP has traded at a premium to its net tangible asset backing. A strong, prominent covenant and steadily growing dividends attracted a large retail shareholder base to the stock, supporting valuation over time. Given elevated share prices, along with an awareness of negative optionality and an external management structure with poor incentives, Phoenix has very rarely held any position in BWP¹. At the time of writing, BWP traded at \$3.60 per unit, approximately a 5% discount to the pro-forma net tangible asset backing of \$3.79 per unit. The capitalisation rate used to deduce this value compares favourably to recent transactions. All told, this transaction removes two "snags" with investing in BWP. Namely, a relatively short WALE, creating a large degree of uncertainty in the short to medium term and perhaps more importantly, aligns incentives between BWP's management and those of independent unitholders². Phoenix has also been impressed with the quality of BWP management and board members and the transactions they have undertaken.

Given this and the stock's reasonable valuation, the portfolio has begun purchasing BWP units for the first time in a long time. Owning a rock-solid portfolio of properties leased to one of the strongest tenants in Australia, with a strong, efficient and aligned management team, at a discount to somewhat conservative independent valuations, seems like a worthy investment.

¹ Phoenix has briefly held positions in BWP in times of temporary weakness, but quickly reduced the position as it returned to fair value.

² The proposed remuneration framework laid out in the meeting booklet is top quartile for property companies under coverage, with remuneration outcomes closely linked to shareholder returns.

Stuart Cartledge is Managing Director of Phoenix Portfolios, a boutique investment manager partly owned by staff and partly owned by ASX-listed Cromwell Property Group. [Cromwell Funds Management](#) is a sponsor of Firstlinks. This article is not intended to provide investment or financial advice or to act as any sort of offer or disclosure document. It has been prepared without taking into account any investor's objectives, financial situation or needs. Any potential investor should make their own independent enquiries, and talk to their professional advisers, before making investment decisions.

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Replacing bank hybrids with something similar

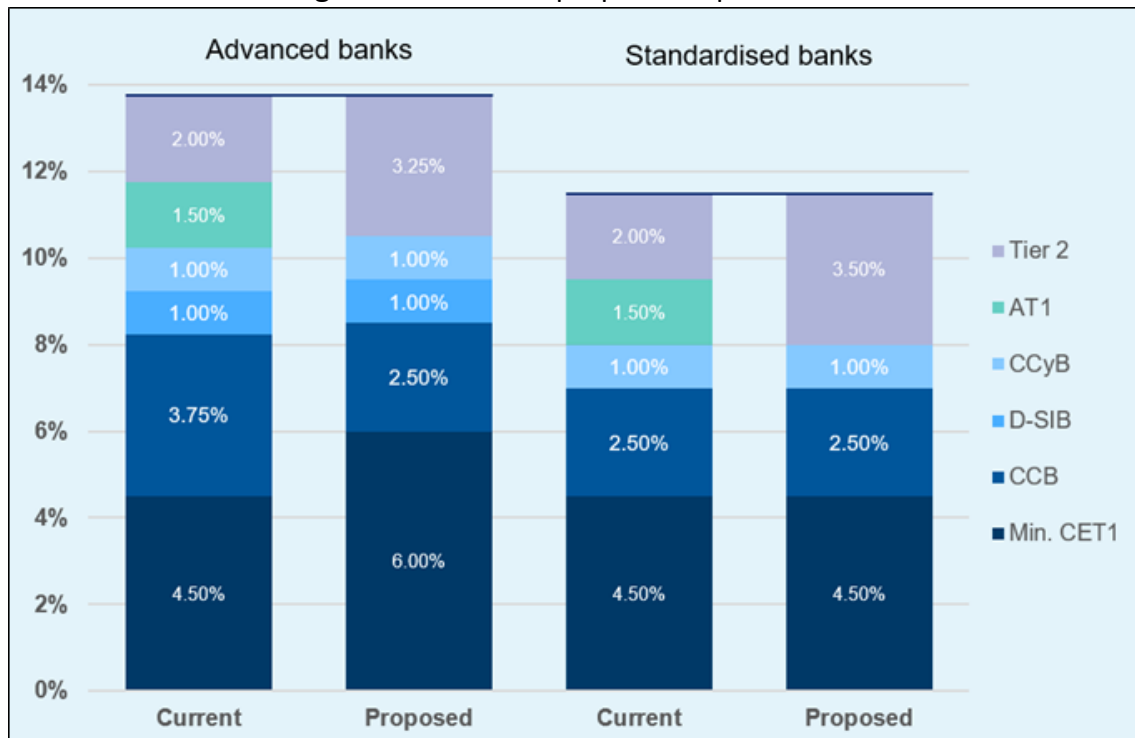
Tony Dillon

As a holder of bank hybrids in my super fund, I have recently been pondering the [APRA-confirmed phasing out of ASX-listed bank hybrid securities](#) from January 2027. This follows APRA and ASIC concerns over complexity risk.

More technically, these are Additional Tier 1 (AT1) capital instruments, which together with Common Equity Tier 1 (CET1), consisting primarily of ordinary shares, makes up a bank's total Tier 1 capital.

AT1 capital is perpetual but callable, can convert to equity, and income is not guaranteed. In a bank's capital structure, it ranks above CET1. Next in the capital hierarchy is Tier 2 Capital, consisting of subordinated debt with defined maturity, no equity conversion trigger, but subject to loss after both CET1 and AT1 have been exhausted.

Figure 1: Current vs proposed capital stacks



Source: APRA

Actually, I have been winding down my own holdings ever since the 2023 Credit Suisse AT1 wipeout. And I must confess to an incomplete risk assessment of these instruments prior to that event. But first, a recap on hybrids.

The purpose of hybrids

The raison d'être of bank hybrids is not so much about raising funds as it is about providing risk absorbing capital. It is a structure designed to strengthen the capital adequacy of a balance sheet to absorb losses in a crisis.

In times of extreme stress, Australian bank hybrids are designed to protect deposit holders and help the bank to remain solvent without a government bailout. Specifically, these features include:

- if a bank's CET1 capital ratio falls below a certain threshold, the hybrid converts to ordinary shares, usually at a discounted rate creating a capital loss.
- in the extreme, if conversion isn't possible the hybrid can be written off entirely creating a 100% capital loss.
- crucially, APRA has the ability to declare a bank 'non-viable', causing conversion or write-off. A subjective and powerful trigger, this was the reality of the Credit Suisse crisis.

These loss-absorbing features position investors and not taxpayers to wear the losses of a bank crisis.

Many retail investors, however, are unaware of these features and don't fully understand the risks. In fact, their eyes glaze over with the yields on offer, often fully franked, thinking they are safe, ASX-listed, regular income-like bonds, issued by major banks creating an illusion of security. When in fact in a crisis, they're closer to equity that could be wiped out in a severe downturn, even before ordinary equity holdings.

The Credit Suisse episode

One could be forgiven for conducting one's own risk assessment and quite reasonably concluding that banks are as safe as houses in this country. But the fact that APRA and ASIC have concerns suggests that that cannot be guaranteed. That what happened with the Credit Suisse AT1 write-off could happen here. Remote as it may seem.

Specifically, in March 2023, Switzerland's second largest bank, Credit Suisse, suffered an almighty crisis of confidence following scandals, financial losses, and a run on deposits. At lightning speed to prevent collapse, Swiss regulators forced a merger with UBS, the largest Swiss banking institution.

What happened next shocked investors and markets. AT1 holdings of approximately US\$17 billion were wiped out entirely and ahead of ordinary equity, even though it ranks above equity in the capital structure. Equity holdings were heavily discounted but not totally wiped out, with approximately US\$3.25 billion returned. Senior debt remained intact.

This occurred because the Swiss regulator invoked a 'non-viability clause', common in AT1 instruments, including Australian bank hybrids. The regulator said that, "the conditions for a write-down of AT1 capital instruments were met", and that "a viability event has occurred".

Lawsuits were threatened, but the upshot was that AT1 capital can be legally wiped out even if shareholders' capital is not. And this is why APRA has moved. To avoid a Credit Suisse-style scenario, and to protect retail investors from these complex financial instruments, with many believing they just behave like bonds. Until suddenly they don't.

What to do with hybrids now?

So, what now for those holding hybrids who want to maintain similar economic characteristics and risk profile in their portfolio? A synthetic hybrid position might be worth considering.

For example, create a proxy for a bank hybrid using a combination of bank and corporate debt, equities, and possibly bank derivatives and term deposits. That is, replicate as close as possible, the income and risk profile of a bank hybrid.

Specifically, replicate high, floating, and franked income with some credit and equity risk exposure, using ASX listed securities available to retail investors. That is, create something that sits between debt and equity, that behaves more like equity in a crisis, and is bond-like in normal times. The following is an attempt to build an AT1-like portfolio based on these characteristics.

1. For an income stream, consider individual stocks yielding high franked income, and possibly writing covered out-of-the-money call options for extra income which also serves to limit any upside, reflecting a hybrid's reduced capital growth potential. Alternatively, invest in an ETF like YMAX which implements a covered call strategy over a basket of ASX-listed large-cap industrials and financials, to enhance franked dividend income.
2. For credit risk exposure, consider ETFs QPON, which tracks senior floating rate bonds issued by Australian banks, and BOND which includes government and corporate bonds, capturing some credit risk, albeit at the senior debt level rather than the subordinated level implicit in AT1s.

3. For some equity risk exposure, invest directly in bank shares or an ETF such as MVB which provides exposure to ASX-listed banks and financial institutions. The loss absorption characteristic of bank hybrids cannot be perfectly mimicked but it could be approximated by keeping this portfolio weighting to a minimum in good times, with cash reserves at the ready to increase in times of market stress (the Buffet way: buy when everyone else is selling).
4. And keep a cash buffer by holding for example, ETF cash proxies AAA (short term deposits) and BILL (short term securities or bank bills). And possibly include term deposits for some fixed income and capital stability. Cash holdings serve several purposes. As mentioned, it can be used to increase equity holdings. And as hybrids are less volatile than equity, having cash in a portfolio smooths that volatility. And finally, BILL mimics the bank bill rate implicit in the hybrid's distribution rate.

Yes, there is overlap in the four investment buckets here, with for example equity exposure in buckets 1 and 3, while debt features in buckets 2 and 4. But deliberate separation helps maintain discipline and focus on the role of each, which combined aims to synthesise a hybrid-like portfolio.

The income and credit risk weightings might make up say 60% of the portfolio (say 30% each). With the equity risk and cash buffer the other 40%, commencing with a lower equity portion (say 10% equity, 30% cash buffer), increasing with market stress. Of course ultimate weightings would depend on an individual's appetite for risk.

By no means the only portfolio that could attempt to replicate bank hybrid features, this one would reflect floating rate, franked income, with capped upside via covered calls, bank equity risk, credit risk, and lower overall volatility compared to pure equity. The income level should be comparable to bank hybrids, and back-testing could confirm that.

A synthetic hybrid strategy therefore may allow investors to achieve similar income and equity exposure, but with more control over risk. And in the meantime, for those investors with bank hybrids still in their portfolios, perhaps only hold on to as much as you're willing to accept being wiped out.

[Tony Dillon](#) is a freelance writer and former actuary.

Nvidia's CEO is selling. Here's why Aussie investors should care

Lawrence Lam

Jensen Huang, CEO and co-founder of Nvidia, [has begun offloading a chunk of his personal stake in the company](#). He recently he sold 100,000 shares worth almost US\$15 million. That's only the start. According to SEC filings, Huang's trading plan allows him to sell up to 6 million shares over the next 12 months, roughly US\$865 million at today's prices.

This matters more than most realise. Many Australian investors are exposed to Nvidia through ETFs with heavy weightings in the stock. Huang's selldown may seem small (less than 1% of his total holdings) but the signal is hard to ignore. Nvidia has nearly doubled in the past three years, riding the AI wave to a US\$4 trillion valuation. It remains a dominant force in tech. But when the person with the clearest insight into the company's future starts cashing out, it's worth asking why.



Source: Morningstar

Investors, whether holding Nvidia through ETFs or directly, shouldn't ignore the signal. But this isn't just about Nvidia. Many local companies still have founder involvement: Corporate Travel Management, Pro Medicus, ARB, Reece, Pinnacle Investment Management, Jumbo Interactive, WiseTech, Xero, Flight Centre and Mineral Resources. Insider behaviour in these businesses deserves close attention.

The Founder Effect

[Founder-led companies often command premium valuations for good reason](#). Founders tend to operate with greater long-term vision, faster decision-making, and stronger alignment with shareholders. Jensen Huang embodies that ethos. The company is a 30-year success story. His leadership, strategic clarity, and early bet on GPU computing created one of the most valuable companies in history. But investors shouldn't view founders as permanent fixtures, and their incentives evolve over time. Huang is now in his 60s. This sale doesn't signal an exit, but it does mark a shift. The myth of founders being "all in" forever starts to break once they begin monetising their ownership at scale. Optics matter. Especially when their stock price is priced for perfection.

The significance of insider sales

In the short term, executives have an innate sense of whether their stock is overpriced. While they may not know where the broader market is heading, they have real-time visibility into internal forecasts, competitive dynamics, cost pressures, and upcoming risks. When they sell, especially in meaningful portions, it usually means the stock is either fairly valued or overvalued. We've seen this before. We've seen similar founder sell-down patterns followed by lacklustre stock performance. At Corporate Travel Management, founder Jamie Pherous sold \$39 million worth of shares in 2021; the stock has since traded sideways despite a broader travel rebound. Appen's founder Chris Vonwiller and CEO sold down \$58 million and \$2.9 million respectively in 2020, just before the company's share price collapsed by over 80% amid structural headwinds. And at Dicker Data, founder David Dicker offloaded \$200 million in 2024, which was a precursor to him stepping down fully a year later. The share price has fallen 30% since then.

One to keep watching today is Palantir, whose CEO and Co-founder [Alex Karp has sold over US\\$1.9 billion worth of stock](#) (c. 20% of his holdings) over the past year while promoting the company's AI

ambitions. Even if the sell down is pre-arranged as part of a 10b5-1 trading plan (which allows for pre-arranged stock sales), insiders decide when those plans are initiated and structured; they often coincide with peak sentiment and stretched valuations. The pattern is well documented. Lakonishok and Lee (2001) [found that insider selling, particularly in aggregate and during periods of elevated valuations, often precedes negative abnormal returns](#). Cicero, Wintoki, and Zutter (2020) [extended this by showing that clustered executive sales are predictive of weaker future stock performance, especially in high-momentum names](#).

The contrast: When founders are buying

While Huang is selling into strength, other CEOs are increasing their exposure. [JPMorgan's Jamie Dimon made headlines by personally purchasing US\\$25 million in stock during a market dip](#) in 2016 – shares are up 5x since then. In Europe, Moncler CEO Remo Ruffini reinforced his control of the luxury fashion house by partnering with LVMH, [and has recently been purchasing shares on market](#) – watch this space. Founder and executive buying is powerful not just because of the dollars involved, but because it is voluntary, rare, and often contrarian. It tells us when those closest to the business believe the market is mispricing its future. Importantly, these transactions often occur without fanfare and outside typical investor presentations. They're a positive signal about motivation and incentives.

A practical lens

From an investment perspective, insider buying is far more actionable than selling. While there are many legitimate reasons for executives to sell stock - estate planning, diversification, liquidity - buying typically signals one thing: conviction. As investors, these signals deserve weight. Insider buying during uncertain periods can highlight mispriced opportunities, while insider selling near euphoric valuations invites a recheck of assumptions. The key is to observe who is putting capital at risk, when the sentiment is not universally bullish, and without any external obligation to do so. Strong founders create value. But watching how and when they extract value can be just as revealing. Are they buying during drawdowns? Are they participating in rights issues? Selling during rallies? Are they changing roles? These are often better signals of short-term direction than earnings guidance or investor day presentations.

Founder selling isn't inherently bearish. Jensen Huang still owns billions in Nvidia stock and remains actively engaged. But large-scale insider selling during euphoric valuations is a signal worth considering. In a market increasingly influenced by narrative and momentum, paying attention to actions matters. *Intent talks big, but action gets there first.* When founders begin quietly taking risk off the table, it's not always a call to exit. But it's often a good time for investors to pause.

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