Firstlinks
a Morningstar company

Edition 639, 19 September 2025

Contents

Editorial

How to make the right decisions isn't taught at school. It's not taught at university. And it's certainly not taught in workplaces. Yet, decision making is central to everything we do, from investing and work to life more generally.

Through reading and experimenting, here are the five decision making tools that I've found most useful:

1. Stick with something you could do for life.

I made a New Year's resolution to go to pilates and yoga classes to keep in shape. Nearly nine months on, things haven't gone to plan. There have been the usual interruptions such as holidays. I've also had some injuries that I've been battling with. Also, life stuff has got in the way. The result: the resolution has been a failure.

My mistake is one many people make – looking at what you'd like to do in the short-term instead of thinking about what is sustainable in the long run.

That's why I like author Morgan Housel's suggestion: pursue things that you could do for the rest of your life.

Do you want to take up yoga? Can you see yourself doing it for the next 30 years, or however long you've got?

Do you want to switch to a new job? Could you see yourself working at that firm and in that role for the long term?

Do you want to buy a stock, or invest a certain amount in a variety of equities? Would you be comfortable with that decision for the next 30 years?

If nothing else, this rule eliminates a lot of the frivolous and emotive decisions that we make, including half-heartedly acting on New Year's resolutions.

2. If you're not saying, "HELL YEAH!" about something, say no.

This comes from author Derek Sivers and is a good rule for those who are often over-committed.

When making a decision, if you're not saying, "This is amazing and I'd be crazy not to do it", then it's a no.

If your friend offers a part-share in his business, it's either a "HELL YEAH!", or a pass.

Are you thinking about learning a new language? You're either all in, or it's a no.

Like rule number 1, what this rule does is eliminate a lot of frivolous decisions so you can focus on what really matters.

3. List pros and cons, with a twist.

This rule comes from Canadian billionaire, Seymour Schulich, who was one of the men behind the creation of Franco Nevada, the world's largest resource royalty company.

We've all made a list of pros and cons for decisions in our lives. Which university to go to, whether to accept a job offer, and so on. Schulich adds a twist to the concept.

Here's how it works. On one sheet of paper or word document, list all the positive things you can about the issue in question, then give each one a score from zero to 10. The higher the score, the more important it is to you.

One another sheet or document, list the negative points, and score them from zero to 10. This time, though, 10 means it's a major drawback.

Then add up the scores on each sheet. If the positive score is 2x or more than that of the negative, you should do it. If not, you should leave it.

I used this rule when making one of the larger decisions of my life – whether to invest in a motel:

Should I invest in motel X?

The positives:

1. It could give me a decent income and return over both the short and long term. *Rating: 10.*
2. I could oversee it with relatively minimal work given two managers are already in place. *Rating: 9.*
3. It's in Sydney and not many hotel/motel businesses go up for sale in the metropolitan area. Means less travel. *Rating: 8.*
4. It's in a great area that should grow over time. *Rating: 7.*
5. I'd gain direct business experience and knowledge. *Rating: 6.*
6. The business sellers and our future landlord are experienced and helpful, and hopefully that would continue. *Rating: 3.*

Positive score = 43.

The negatives:

1. It's a big outlay of cash and is higher risk than many other assets. *Rating: 7.*
2. It's a big leap given I haven't been directly involved in motel operations before. *Rating 5.*

3. Though not directly involved, I'd take on managing more than a dozen employees. *Rating: 5.*
4. I'd have to travel an hour to get to the motel, likely once a week. *Rating: 3.*

Negative score = 20.

As you can see, there are more than twice the positive to negative points. I took Schulich's advice and invested in the motel, and it turned out satisfactorily.

4. Probability-weight outcomes

This rule comes from investor Mohnish Pabrai and is most applicable to business and investing.

One of my pet peeves are the notions of fair value, intrinsic value, or a price target. I don't think any of these things exist.

There is no such thing as Commonwealth Bank is worth X amount. Or its price target is this amount.

In my experience, it's much more useful to think in probability-weighted terms. So if I'm thinking of buying CBA, I'll do some estimates of what they may earn over the next five years. I'll do pessimistic, moderate and aggressive scenarios for these earnings. Then at the end of five years, I'd put a P/E multiple on the stock under the three different scenarios. Then, I'll weigh up the probabilities of each scenario happening.

If there's an 80% chance of a +10% annual return, then it could be a good buy. If there's an 80% probability of a sub-5% return, it might be a pass.

I often do five different scenarios and probability-weight each of them.

The benefit of this rule is that it's a more realistic way to look at future outcomes. Nothing, especially in investing, is certain. This caters to that.

I've also found this rule makes you think more about the assumptions that go into your earning forecasts, and whether they are realistic or not.

5. Invert, always invert.

Charlie Munger once said, "All I want to know is where I'm going to die, so I'll never go there." This thinking was inspired by the German mathematician Carl Gustav Jacob Jacobi, who often solved difficult problems by pursuing a simple strategy: invert, always invert.

"[Jacobi] knew that it is in the nature of things that many hard problems are best solved when they are addressed backward," Munger said.

For example, let's say that you want to be happier. Thinking forwards, you could run through all the things that you could do to foster happiness. Inverting the problem, you could investigate all the ways to make yourself miserable. In an ideal world, you'd want to avoid these things.

Inverting a problem won't always solve a problem, but it may save you from making a silly decision.

****

In my article this week, I explore how Australia's housing and superannuation markets have grown to unprecedented sizes, far outpacing the real economy and challenging traditional economic assumptions.

What happens if these asset classes keep expanding - can the system sustain it, or are we heading for a reckoning?

****

I'll like to bid farewell to Joseph Taylor, who has helped out with *Firstlinks* over the past 18 months or so. It's been a pleasure to work with him and I wish him all the best back in his homeland of Scotland.

James Gruber

Also in this week's edition...

Clime's John Abernethy says recent disclosures reveal Australian politicians hold investment property portfolios far larger than the average household, raising serious questions about conflicts of interest amid the nation's housing affordability crisis.

What if retiring debt-free isn't always the smartest move? **Tony Dillon** says keeping a mortgage with a redraw facility can offer retirees flexible access to home equity, helping manage cash flow without the pitfalls of a traditional reverse mortgage.

Dimitri Burshtein and **Peter Swan** think the ASX's obsession with 'independent' directors may be undermining its own markets, as David Gonski highlights the simple yet overlooked need for directors to truly understand their business. Private equity's savvy governance model is quietly pulling the best companies out of public view - at ordinary investors' expense.

"Dotcom on steroids" is how **GQG** describes the current state of US big tech companies. After years of outsized gains, it says these businesses now confront a turning point as growth slows, competition intensifies, and capital spending soars - raising questions about the sustainability of their lofty valuations. They advise investors to be cautious, as today's AI-driven hype may mask deteriorating fundamentals and the risk of structural disruption.

Trade wars and tariffs are rewriting the rules of global investing, turning sudden policy shifts into a new source of risk, and opportunity. The real winners? **Capital's Matt Reynolds** says it will be companies with pricing power, agile supply chains, and resilient business models that not only survive disruption but thrive through it.

Lawrence Lam believes the next generation of wealth creation is likely to emerge from founder influenced firms that combine scalable models with long-term alignment. And he says four signs can alert investors to these companies before the crowds.

Lastly, in this week's whitepaper, **Yarra Capital** looks at future winners from the structural shifts in AI, energy and defence.

Curated by James Gruber, Joseph Taylor, and Leisa Bell

A nation of landlords and fund managers

James Gruber

Viktor Shvets, Global Strategist at Macquarie Group, has a genius theory. It's not genius for the theory itself but because he'll be right whatever plays out in markets, and when job security in finance is as fragile as a soccer coach in the English Premier League, then that's genius at play.

Here's the theory. Shvets says business cycles are dead, and it's due to three forces. First is excess capital. Financial assets have grown so much faster than the real economy that they are all that matter – it's otherwise known as financialisation. He says the value of financial assets around the world is at least 5x greater than the real economy. It's led to increasing inequality as those holding these assets have benefited, and those who haven't have been left behind.

Second is government intervention in the economy and markets. Because an unwinding in financial assets would have devastating consequences for the global economy, governments and central banks are incentivised to keep the bubble going with fiscal and monetary stimulus. Yet, this serves to further entrench inequality.

Third is the pace of innovation. It's created a winners take all economy and the winners will keep winning.

Due to the three forces, Shvets believes everything is a bubble and central banks and governments have every incentive to keep it inflated. That means traditional market measures such as mean reversion in earnings and valuation multiples as well as economic cycles are redundant.

Shvets tempers his views by suggesting that there are echoes of the 1930s in today's world, and he hints that it may not end well - but we're not there yet.

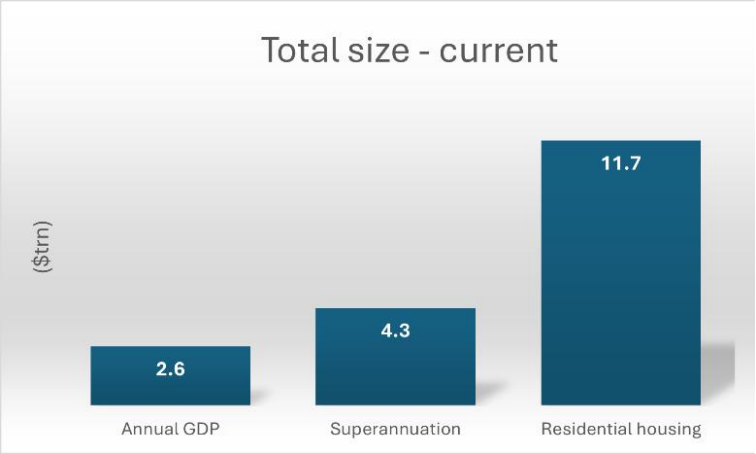
The genius of Shvets is that he'll be right if markets continue to climb higher, and he'll be right if they take an ugly turn.

While his theories aren't especially original, especially on financialisation, and I disagree with business cycles being totally dead, Shvets packages his views nicely and they should keep him gainfully employed for some time!

Australia is the prototype for financialisation

You don't have to go far to see Shvets' thinking on financialisation playing out. Look at Australia. Here, superannuation and housing dwarf every other asset class and the economy.

Residential housing is now worth $11.7 trillion, superannuation totals $4.3 trillion, while annual GDP amounts to just $2.6 trillion.



Source: Cotality, World Bank, Firstlinks.

In other words, housing is 4.5x larger than annual GDP, and housing and super combined is 6.2x the size of the economy.

That makes them too big to fail. Consider this: if super and housing fell in value by a combined 8%, which is not even a correction in market terms, that would equate to six months' worth of GDP.

It's no wonder everyone in Australia is obsessed with housing. And it's no wonder why super is a giant in our stock market and broader financial industry.

Extrapolating current growth for super and housing

What happens if super and housing continue on their current growth trajectories? Is it sustainable, and if so, what are the implications for the economy and markets?

To gauge this, let's do a simple experiment and explore what housing, super, and the economy could look like in 2050, just over 24 years away.

I'll first assume that housing grows at 7% per annum until then. That's slightly less than the 7.5% of the past decade, though it's in line with a lot of people's expectations that housing should double in price every decade.

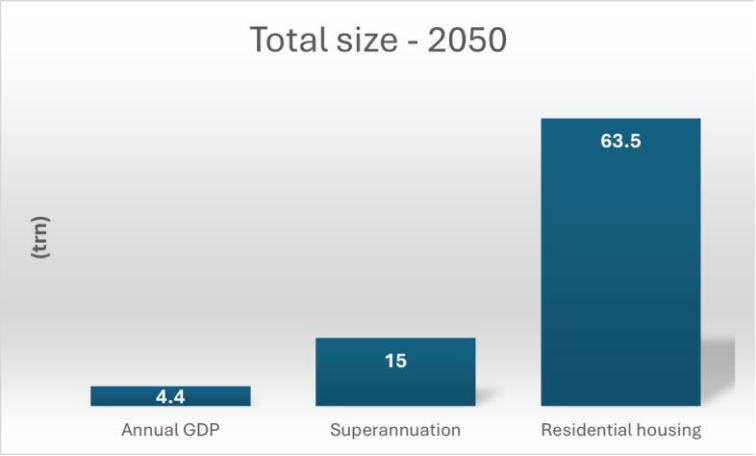
With super, there are various consultant forecasts out to the 2040s, and from that I've got a good idea of what the size of the sector might be by 2050.

Finally, with GDP, Treasury's long-term forecasts suggest economic growth of 2.25-2.75%. I've taken 2.25% because I think it's most realistic.

With these assumptions, here's what 2050 looks like (see chart, right).

The residential real estate market would grow from $11.7 trillion to $63.5 trillion. The size of super assets would increase to $15 trillion. Meanwhile, annual GDP would jump to $4.4 trillion.

It'd mean housing would become 14.4x the size of annual GDP, up from 4.5x now. And housing and super would be 17.8x the size of the economy.



Source: Firstlinks.

In this world in 2050, a 10% fall in house prices would equate to almost 18 months' worth of GDP.

If you think housing dominates dining table conversations now, wait until 2050!

And what about super? $15 trillion in assets would be an enormous amount of money to invest. Can they continue to outperform benchmarks like now? Consider that the world's greatest investor, Warren Buffett, is struggling to invest the equivalent of A$539 billion today. Will it mean the super funds allocate more money to passive over active?

Think about what it could mean for the ASX. Super funds are already major shareholders in most large companies. What will happen when they are more than 3x the size of today?

What about the implications for the tax system? Super will surely be taxed more by then. And housing too. Especially if governments continue to lavishly spend other people's money ie. the taxpayers.

Is it sustainable?

The question is: are my assumptions for future growth correct? That is, are current trends sustainable?

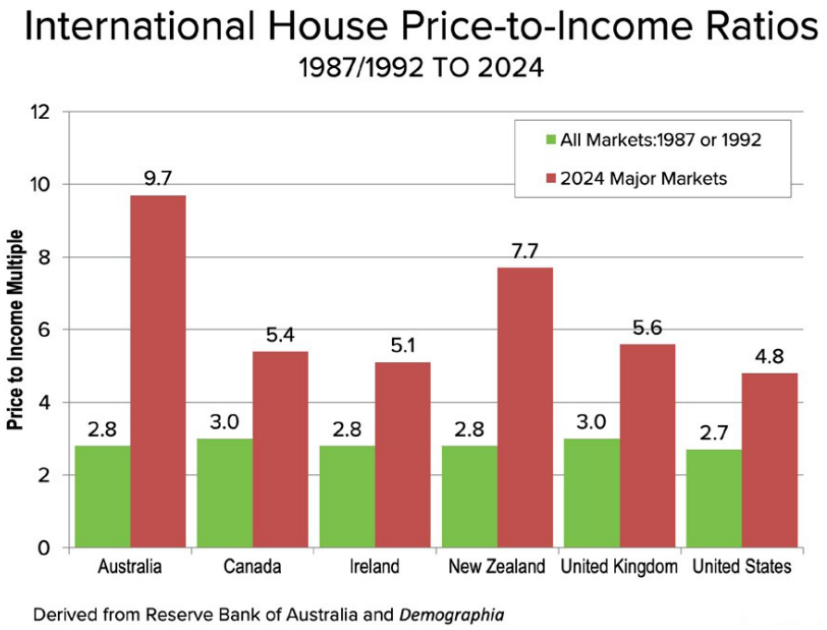
Let's zoom in on housing. The current median house price is $920,000 across Australia. If prices grow at 7% per annum, the median price by 2050 would be $5 million. For the largest capital city, Sydney, a 7% growth rate would turn the current median house price of $1.52 million into $8.25 million.

Is that realistic? A common measure of housing affordability is the median house price to annual household income ratio. Currently, that stands at roughly 10x – the median house of $920,000 versus median gross household income of $92,000. If I assume the current annual growth in wages of 3.4% persists to 2050, what happens to this ratio? The answer is that it would rise by the current 10x to 23.6x.

It should be no surprise that the ratio jumps that high given that I've assumed house prices grow at a rate of about double that of wages over the next 24 years or so.

According to Demographia, no country or city has ever had a ratio as high as 23.6x. Hong Kong got close in 2021 at 23.2x, but that was when interest rates were near 0% and the ratio there has since fallen to 14.4x.

As you might be able to tell, I'm sceptical that housing can grow



Derived from Reserve Bank of Australia and *Demographia*

World's most expensive housing markets in 2024

Ranking	Market	Median multiple
1	Hong Kong	14.4
2	Sydney	13.8
3	San Jose, CA	12.1
4	Vancouver	11.8
5	Los Angeles	11.2
6	Adelaide	10.9
7	Honolulu	10.8
8	San Fransisco	10.0
9	Melbourne	9.7
10	San Diego	9.5
11	Brisbane	9.3
12	Greater London	9.1
13	Toronto	8.4
14	Perth	8.3
15	Miami	8.1

Note: median multiple = median house price/median household income
Source: Demographia

anywhere near 7% per year over the long term. If prices continue to increase by more than wages, it will just make housing even more unaffordable than it is now.

If house prices were to grow by less than wages, it would mean that housing would shrink in importance versus the economy. It would mean less investment going into housing and more into other areas of the economy - potentially more innovative sectors. That could spur better productivity and growth.

Turning to super, there's not a lot to stop it in coming decades. Yes, that might be a few market downturns, even bad ones, yet money will still flow in via the super guarantee.

While current debate on super centres on the switch from accumulation to decumulation, and the introduction of the $3 million super tax, attention in future is likely to turn to the size of the sector and what it means for performance. There isn't nearly enough discussion on this, though I don't think it's far away.

James Gruber is Editor at Firstlinks.

The hidden property empire of Australia's politicians

John Abernethy

Recent mandatory asset disclosures by politicians suggest a widening wealth divide between our elected representatives and those they represent. Those disclosures show that our politicians aggressively invest in the property asset class and much more so than the average Australian.

With a raging debate concerning the unaffordability of housing, disclosures of property investments by sitting members suggest that conflicts of interest may exist in the Houses of the 48th Parliament. Importantly, those conflicts of interest are inferred but not openly disclosed, either prior to or during parliamentary debates concerning housing policy.

A comparison of the ratios of investment in property – politician to average household – makes for some alarming observations.

Let us start with the ***Australian household sector – the taxpayers and the voters.***

ABS data reveals there are 10.7 million households. There are 27.2 million Australians and thus the average household has about 2.5 people in residence. This ratio includes the 2.9 million households where people are living alone.

In 2023, there were 2.2 million property investors representing 19% of all 'individual taxpayers' that the ATO noted as having an interest in property. The majority of this cohort – about 1.5 million – had an interest in just one investment property. 450,000 had two properties and about 200,000 had more than one investment property (representing less than 2% of individual taxpayers).

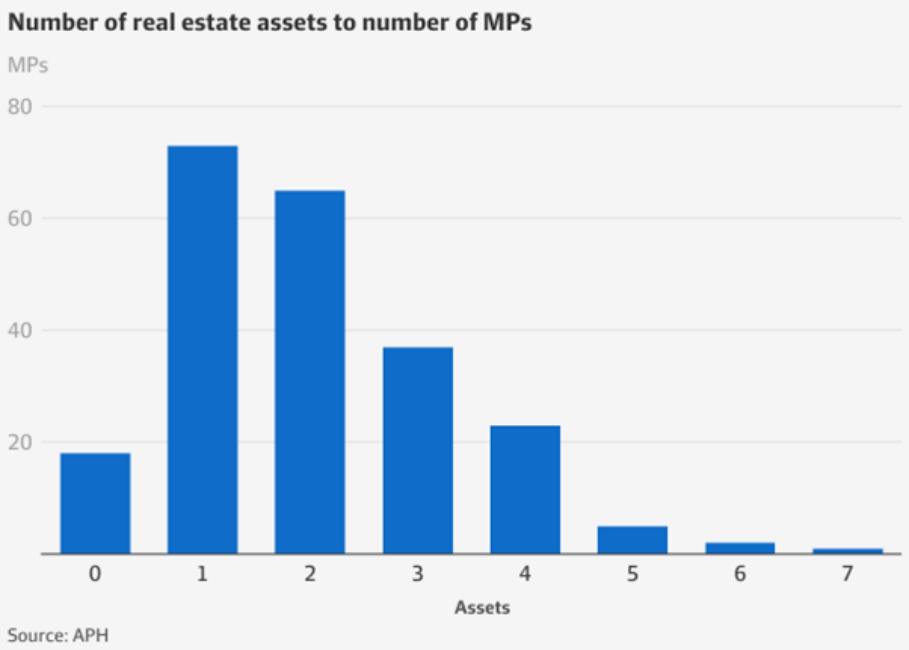
In passing it is interesting to note that about 10 million individual taxpayers (who were not in business) lodge tax returns, whilst there are about 15 million people employed. A third of workers do not lodge a

tax return. However, property investors invariably lodge tax returns as they claim a range of deductions against appropriately disclosed rental income.

Australia's 2021 census disclosed that 3.3 million households rented, about 31% of households. This includes renters from the government sector (about 277,000 renters).

What are the comparative numbers for our politicians?

The following chart, reported in the Australian Financial Review, covers the real estate assets of the 226 members in the Commonwealth Parliament (in the Houses of Representatives and the Senate).



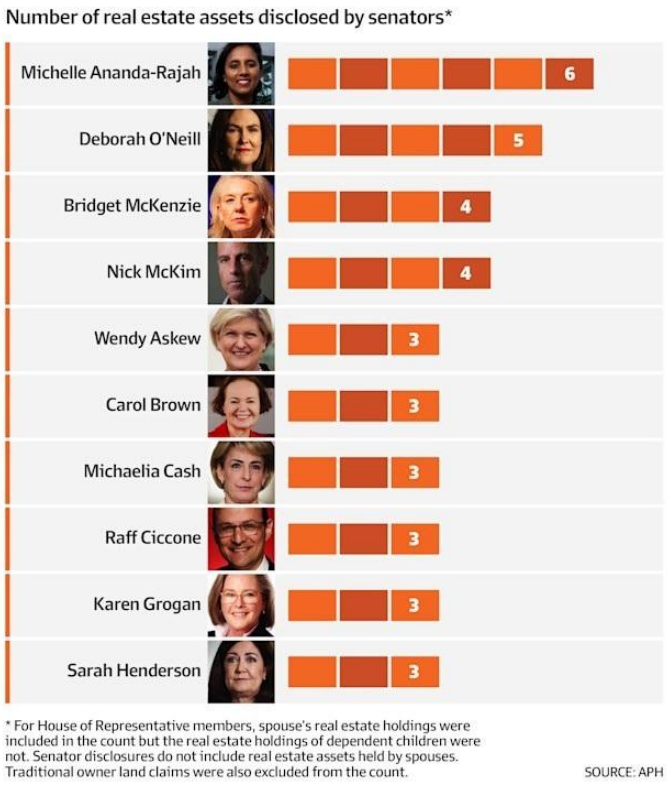
In reviewing the asset and investment registers of politicians the following are my observations.

First, there are 'apparently' 12 politicians who declare that they do not own a residence. That is 5% of the political cohort, therefore 95% of politicians reside in a house that they own, with or without a mortgage. It is not immediately clear as to whether the 5% of renters may have an investment property – directly or indirectly.

The chart above indicates that:

- 18 members have no property investment (8%) – if they rent then this compares to the 31% of Australian households that rent.
- 72 members have one property (32%) – just their residence.
- 65 members also have one investment property (29%).
- 37 members have two investment properties (17%).
- 23 members have three investment properties (10%).
- 8 members have four or more investment properties (3%)

Thus, most politicians, some 60%, own one or more investment properties. The AFR produced the following tables to highlight our Parliament's significant investment property owners.



Readers should note that different disclosure rules apply to Senators (not required to include related parties) to those that relate to Representatives.

In any case, given that our politicians are compelled to disclose the assets of their household, the following comparisons (politicians to the voters) are deduced:

- 60% of politician's households have an investment property compared to only 20% of the total for Australian households; and
- 30% of politicians have an interest in more than one investment property compared to just 3.5% of Australian households.

The differences are stark - *Politicians have multiples of investment property assets compared to average Australians.*

Conflicts of interest are stark

It is remarkable that our politicians, as a cohort or subsection of society, have such a significant investment slant to investment property. Are there other factors at play?

It is well understood, and it is a strategic investment strategy, that property investment normally requires leverage. Multiple property investments absolutely require leverage to access negative gearing taxation benefits. Politicians access property investment loans at a greater rate than the broader population. Why?

Is it a reflection of unfair influence? Does it suggest that a politician's income generating capacity, to support loans, is better or more certain than average households? Do politicians have job certainty?

In Question Time, is there so much conflict across the chambers that it is to no party's benefit to highlight them?

So much for the workings of democracy!

This raises the issue of conflict of interest - between those who govern, debate and then determine the laws that relate to property investment - with those they represent.

The determination of negative gearing tax rules relating to property investment, and the oversight of leverage provided by the regulated financial institutions, requires a balanced policy debate. Can that occur in a Parliament that is weighted towards people who actively use property as an investment activity when most of the population either do not or cannot?

The broad asset disclosure declarations of politicians should not be accepted as the basis of dealing with conflicts of interest. In business, good corporate governance requires a conflicted beneficiary to make both a full disclosure and to absent themselves from a vote.

However, the ability of politicians to generate wealth should not be curtailed by public service. Remuneration and incentives should be met by more sensible salary and entitlements – so long as they are transparent and based on the generation of a measurable and better standard of living for the population they represent.

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

For more articles and papers from Clime, click here.

Retiring debt-free may not be the best strategy

Tony Dillon

Conventional wisdom would have it that workers should retire debt free. But that may not always be the best way to go. What if retirees could hang on to debt to their advantage?

If the majority of your wealth is tied up in the family home, clearing a mortgage locks that equity up in retirement. Re-borrowing against the home is almost impossible without steady income. And unless you sell and downsize, a reverse mortgage is really the only alternative if accessing equity is required.

And it turns out that more Australians are exploring reverse mortgages to ease cash flow pressures in retirement. Surveys report that with more retirees concerned about income, enquiries and demand for reverse mortgages are growing.

However, the reverse mortgage market is complex and somewhat of a minefield, and can be overwhelming for those retirees considering going down that path.

Features, rules, and restrictions vary considerably among reverse mortgage products. Interest rates are typically higher than standard mortgage rates, and establishment, valuation, legal, and ongoing fees all add up. Early repayment of capital may be restricted or penalised, with overall flexibility in short supply.

There may be additional insurance and property maintenance requirements. And the whole process can be confusing and unsettling.

An alternative strategy

Instead, by not wiping out a mortgage on the family home prior to retiring, a 'line of credit' can be set up to access equity and manage cashflow when retired.

Specifically before retiring, funnel as much savings as possible into an existing home loan with full redraw facility. Ideally the net loan balance will be close to zero by retirement. If no home loan exists prior to retiring, it may be possible to establish one while there is still income and capacity to service one. Then pay it down to build redraw.

The benefits of having an open loan facility in place to draw upon in retirement include:

1. Flexibility.

- Ability to fund one-off type expenses such as medical, home repairs, a car, or even travel.

2. Bridging income.

- Can provide income in early retirement before super becomes accessible, or until Age Pension entitlement.

3. Volatility Buffer.

- Enables super balances to ride out market volatility. Funds can remain invested in growth assets without needing to lock in losses in market downturns, by drawing on loan funds for income instead.

4. Bank of Mum and Dad.

- A means of being able to assist your adult children.

5. A 'DIY reverse mortgage'.

- Supplement super fund pensions and/or the Age Pension, in a controlled and measured way on one's own terms.
- Decide how much to access and when, controlling your home equity. Interest on funds drawn is paid at a competitive owner-occupied rate, and money can be repaid simply at any time.
- Avoids the pitfalls and complexities of a commercial reverse mortgage.

Note, that a redraw facility can be restrictive and controlled, and is best suited for lump sum type withdrawals. A mortgage offset account could therefore be another means to access home equity, offering maximum liquidity if regular cashflow is required.

Bear in mind though, that an offset account is basically a savings account linked to a home loan, and is therefore treated as a financial asset for Centrelink purposes. A redraw facility, however, allows access to funds already used to pay down a mortgage, and is exempt from the Age Pension assets test.

If preserving Age Pension entitlement is required with regular cashflow, then a combination offset/redraw approach could be considered. By topping up the offset balance with redraw lump sums at defined intervals, entitlement effects can be kept to a minimum.

It needs proper planning

Maintaining debt in retirement is not without risks and considerations. A redraw facility is not guaranteed, and lender rules can change. If the Age Pension isn't an issue, the process can be simplified by just running an offset account. But ensure the mortgage can be 100% offset as that is not always the case and note that offset accounts are usually not available with fixed interest loans.

As seen in recent times, interest rates can rise rapidly, and without an offsetting increase in property value, equity can be eaten into faster than expected. And discipline is key, as easy access to redraw and offset accounts can tempt excessive spending. And there may be implications for estate planning, as equity could reduce for beneficiaries. As with any financial decision, proper risk/benefit analysis should be undertaken before entering into a particular arrangement.

Finally, if using debt to mimic a reverse mortgage, an exit strategy should be considered before commencement. A 'DIY reverse mortgage' can work well for early to mid-retirement years. But unlike a commercial reverse mortgage which is a lifetime arrangement, redraw/offset facilities are tied to a standard mortgage which has a defined term to expiry. It must be repaid eventually. At which point super and Age Pension cashflow needs to be sufficient, or assets sold either to downsize or move into aged care. Or transition to a reverse mortgage, having at least deferred this option, with interest savings and hopefully an increase in property value along the way.

Having flexibility in retirement is key and knowing that debt managed prudently is not necessarily a bad thing, it can provide another option for income. So that perhaps the pre-retirement mantra should shift from: "retire debt free" to "retire with flexible access to funds".

Tony Dillon is a freelance writer and former actuary.

Why the ASX is losing Its best companies

Dimitri Burshtein, Peter Swan

If investors and regulators want to understand why the number and quality of ASX-listed entities is shrinking—and why the better ones are being picked off by private equity – they should listen to David Gonski. After all, Gonski is dubbed by The Australian Financial Review (AFR) as "the chairman of everything."

Speaking recently at an AI discussion hosted by law firm Ashurst, Gonski – whose corporate 'successes' include chairing ASX and ANZ – remarked that "the No. 1 thing for directors now is to understand their business."

Gonski's observation is striking and a classic Kinsley gaffe: an accidental disclosure of an uncomfortable truth that reveals more about the failings of ASX listed entity governance practice than perhaps intended. Why are boards filled with directors who often lack any real understanding of the businesses they are charged with overseeing?

Independence often means ignorance

The answer lies in the ASX's decades-long preference for 'independent' directors, a doctrine zealously advanced by governance bodies and the professional director class that thrives on it. In practice, independence often means ignorance. Directors are appointed for their detachment rather than their expertise or alignment. They delegate stewardship to managers but often lack the knowledge to meaningfully evaluate them. Such arrangements may serve the careers of professional non-executives, but they do little to protect shareholder interests.

Private equity takes the opposite approach. It installs directors with real knowledge and financial alignment – people chosen for what they know and what they stand to lose. Unsurprisingly, private equity leaders claim, with some justification, that their governance model delivers superior financial returns through superior governance.

The contrast could not be sharper: listed company boards dominated by part-time independents with negligible stakes, versus private boards where directors and managers have real skin in the game.

In another domain, we have witnessed the effects of placing individuals with limited understanding in charge of intricate and complex organisations, who then proceed to make serious mistakes yet the consequences they face are minimal. That domain is government.

There is no evidence that independent-heavy boards improve outcomes. On the contrary, research by Professor Peter Swan and others demonstrates that the exclusion of significant shareholders and knowledgeable insiders degrades governance standards and erodes performance. Yet the ASX and the Australian Institute of Company Directors continue to promote a governance model that rewards detachment over accountability.

The consequences are visible in the market itself. The ASX is hollowing out with a shrinking number of listed entities. Those exiting are not just small players but large, profitable, dividend-paying enterprises like Sydney Airports, CSR, Newcrest Mining, and Suncorp Bank. They have been replaced by fewer, smaller, and more speculative firms. Quality, maturity, and diversity are in decline. This is not a temporary lull—it is a structural weakening of Australia's public markets.

The reason is straightforward: private capital is increasingly cheaper than public capital, and governance is a big part of that calculus.

For over 250 years, economists have stressed that directors need skin in the game. Instead, ASX rules penalise material director ownership, deeming significant shareholders 'non-independent' and sidelining them from boards. Directors without stakes in the business can line their pockets while bearing little risk themselves. This misalignment raises agency costs—the classic problem in principal-agent theory, where managers and directors pursue their own interests rather than those of shareholders.

ASX's preferred governance model is that the ideal board is large, diverse, and dominated by independent non-executives with no material stake in the company. The preference for this model is not based on evidence but rather the 'vibe'. This model has been repeatedly tested in practice and has repeatedly failed shareholders, as the recent James Hardie acquisition of AZEK illustrates. Compliance with governance 'principles' may tick the boxes, but it does not protect investors from value destruction.

The ASX needs a better model

The stakes are far larger than the ASX's own relevance. A shrinking, less diverse market limits opportunities for ordinary investors. Public markets also play a crucial role in transparency, price discovery, and wealth mobility. Their decline forces savers and superannuation funds into costlier private channels dominated by gatekeepers who extract their own tolls. The result is diminished returns for everyday Australians.

The corporate governance industrial complex – regulators, academics, activists, journalists, and the professional director class – has entrenched a system that rewards symbolism over substance. They promote independence and stakeholder rhetoric while ignoring the fundamental truth: effective governance requires aligned incentives and genuine accountability to owners. Private equity has embraced this reality. The ASX, meanwhile, continues to drift.

Unless ASX rethinks its preferred corporate governance model and restores the alignment between owners and management, its public markets will continue to shrink in size, quality, and relevance. And while the consultants and ticket-clippers may prosper, the cost of failure will be borne by the investors who can least afford it: ordinary savers whose superannuation depends on strong, transparent, and accessible public markets.

As *Black Swan* author Nassim Taleb posited: "When skin in the game is absent, so is accountability." Without fundamental change, the ASX risks becoming a marketplace not of owners, but of caretakers, and this is no foundation for enduring prosperity.

Dimitri Burshtein is a principal at Eminence Advisory. Peter Swan AO is emeritus professor of finance at the UNSW Sydney Business School.

3 reasons the party in big tech stocks may be over

GQG Research

This article is an abridged extract of GQG Partners' recent long-form article "Dotcom on Steroids". You can read the full article here.

Since the 2008 financial crisis, the US technology sector has been the standout investment trade, defying the concerns of value investors over steep valuations.

While many initially underestimated the business quality, growth runway, and long-term earnings power of big tech, these companies—led by visionary founders—evolved into monopolistic giants, delivering fast growth and robust profit margins. In a growth-starved, zero-interest-rate world that continuously drove capital toward secular growing compounders, this was the perfect setup for massive outperformance.

Today, we believe the sector stands at a significant inflection point, with investors seemingly making a one-way bet on the AI mania while appearing to ignore alarming fundamental issues.

GQG's investment philosophy is grounded on the idea of "Forward-Looking Quality." For the first time in our firm's history, we believe many large technology companies today—particularly those with meaningful roles in the AI infrastructure build-out—represent backward-looking quality.

As a result, we have adopted a much more cautious stance toward these investments. We anticipate the next few years for the sector will be defined by deteriorating fundamentals: lower growth, higher competition, and greater capital intensity.

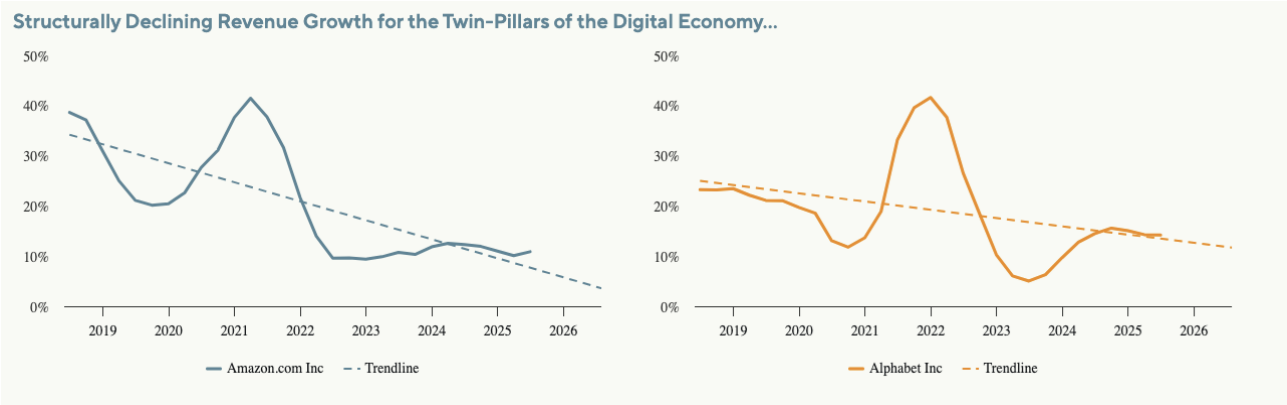
1. Lower growth

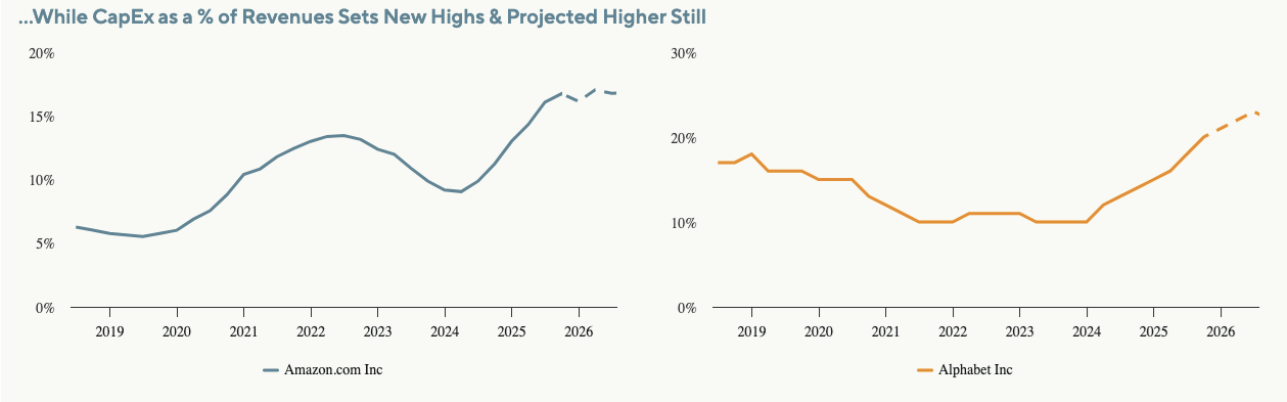
The remaining runway in most technology end markets is an issue, in our view. Once a company becomes the proverbial 800-pound gorilla in its respective sector, sustaining supernormal topline growth tends to be virtually impossible.

How fast can Microsoft or Nvidia grow now that they respectively control approximately 60% of the entire software and semiconductor industry's profits? On the current trajectory, we would not be surprised to see long-term revenue growth decelerate to single digits within the next five years.

In other words, we believe big tech no longer offers a unique growth profile relative to other sectors. Indeed, a few of these larger spenders like Amazon and Alphabet have been trending in that direction for some time, all the while their capital expenditures as a percentage of sales sets new heights.

To be clear, these are names we have owned in the past in a big way—and very well may own in the future when the visibility improves—but at the current juncture we remain cautious.

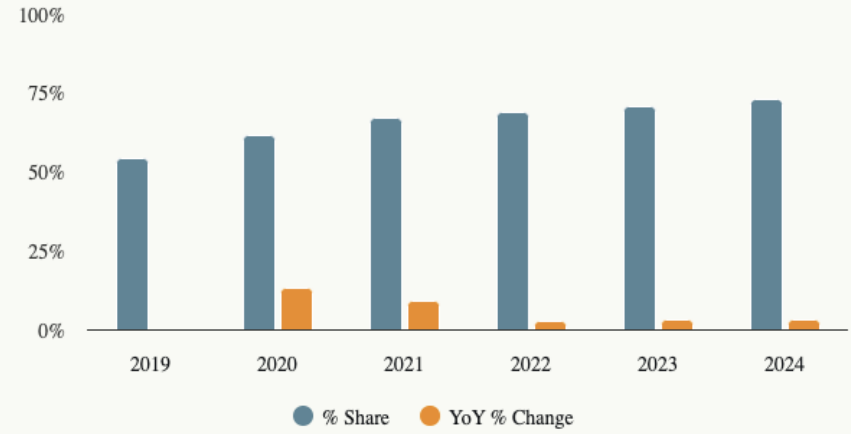




AI expenditure is linked to advertising spend

Most of today's AI capital expenditures are funded by advertising revenue—the lifeblood of Silicon Valley.

Digital advertising now accounts for more than 70% of all advertising, so the penetration-driven growth story could be approaching its final innings. Morgan Stanley expects the US digital ad industry to grow at a 9% compound annual growth rate (CAGR) from 2025 to 2030—less than half of its 20% CAGR between 2014 to 2019.



Source: GQG Partners LLC, Statista Advertising & Media Outlook. See statista.com. Figures reflect estimates for full-year spend. Does not include revenues associated with email marketing, sponsorships, product agreements, product placement, or commission-based affiliate systems. Percentage change values are relative (i.e., an increase of 20% from a starting value of 50% would equal 60%, not 70%). Comparability: Base changes. Figures are not comparable with previous reports.

At these rates, we believe the sector may only grow in line with sleepy sectors—think transmission and distribution utilities or property and casualty insurance—yet with considerably higher risk and cyclicality.

2. Competition has structurally increased

During the 2010s, we viewed big tech as a collection of monopolies: Amazon dominated e-commerce, and Google dominated search. Their only competition came from sleepy incumbents ripe for disruption, such as cable television or brick-and-mortar retailers.

That is no longer the case today. Instead of playing in different sandboxes, big tech has largely converged into the same AI arms race, where they now compete directly against each other.

For example, countless new competitors have entered the digital advertising sector, including Walmart, Netflix, and Uber. Chinese internet companies have also become fierce global competitors. In fact, ByteDance recently surpassed Meta to become the biggest social network by revenue worldwide.[1]

At the end of the day, ad budgets are finite, and tech companies are increasingly competing against each other—rather than legacy media companies—for incremental growth.

Despite massive innovation over the past century, total advertising revenue has remained constant at around 2% of GDP,[2] and we do not believe AI can change this fact. Moreover, there are only 24 hours per day, placing a natural limit on how much each digital platform can monetize users.

Clouds on the horizon

Another great example of the deteriorating competitive landscape is the cloud market, which has been one of the most important growth drivers for several tech giants.

This was once a stable three-player market: Microsoft, Amazon, and Alphabet. However, a disruptive fourth player (Oracle) just entered in a big way and is explicitly undercutting peers on pricing by 40%, according to our research.[3] Adding to the shakeup, CoreWeave—a financially constrained fifth player with an arguably more cutting-edge product—has announced its intention to aggressively gain market share through pricing pressure.

Such dynamics have the potential to make life difficult for even the most established players. AWS, for instance, is already showing signs of competitive strain. Its earnings before interest and taxes (EBIT) margins declined by a staggering 7% last quarter, while earnings growth slowed to a pedestrian 9%. That is hardly the picture of robust performance for a stock trading at 30x forward earnings, in our view.[4]

Competition will likely only increase with sovereign cloud players and startups all simultaneously ramping up supply. In fact, China is already experiencing a massive datacenter oversupply, resulting in only 20%-30% utilization rates.[5]

The cloud market now reminds us of the telecom industry, another highly capital-intensive business. Historically, we have observed that telecom economics typically deteriorate when a fourth player enters the market, particularly if it competes on price.

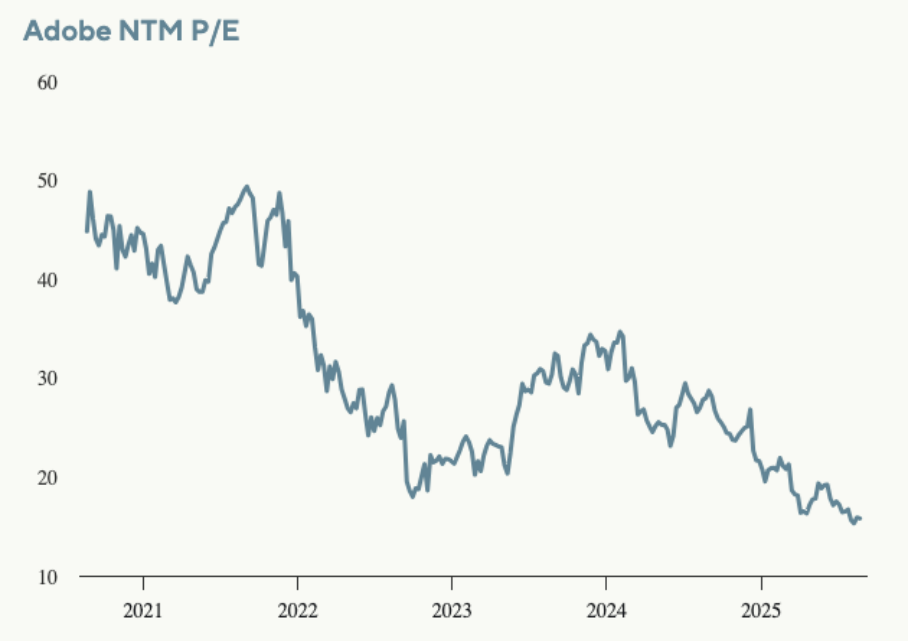
While there are some switching costs with cloud, we do not believe they are insurmountable, as plenty of companies have changed providers in the past. For example, ServiceNow and Salesforce recently signed large deals with Google Cloud, representing a shift away from industry leaders Amazon and Microsoft.[6,7]

It is also unclear how much of the cloud sector's revenue growth now comes from AI startups, which are typically funded by the same cloud companies. According to one estimate, AI startups spend more than 80% of raised venture capital money on compute resources.[8] If VC funding dries up, a substantial slice of the cloud sector's incremental spend could be at risk, potentially slowing growth.

Tech faces substantial disruption risk

In the 2010s, big tech were the disruptors. Today, big tech is the incumbent, while AI is emerging as a highly disruptive force. It is not obvious to us who will be the biggest winners from AI over the next decade.

Even in the internet era, the biggest winners only became apparent many years after the bubble burst (e.g. Meta, Google). As a result, we believe investors are not adequately pricing in the risk of disruption.



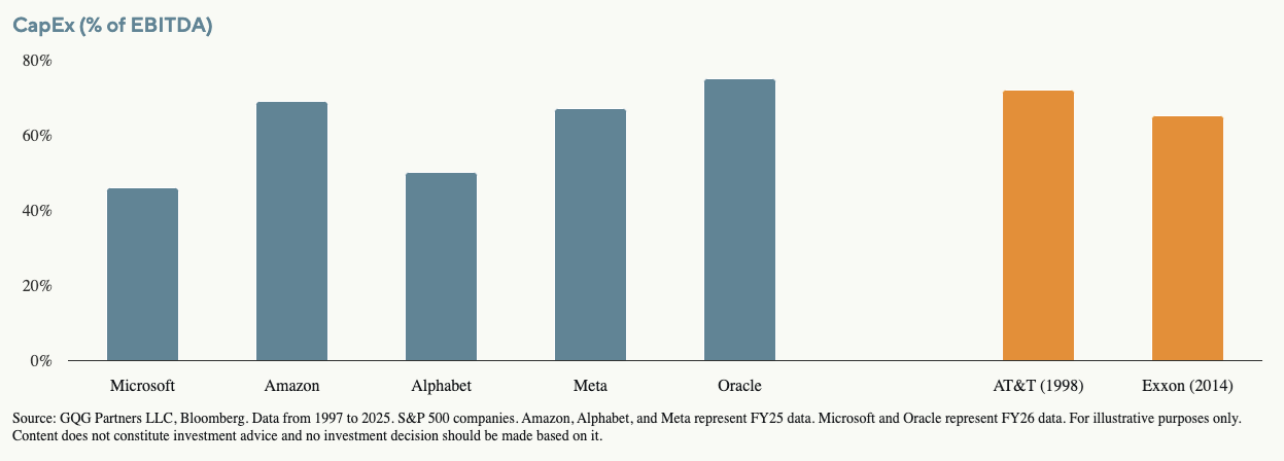
Google's dominance in search is being challenged by AI advancements like ChatGPT, while software's once-sticky dynamics are facing erosion, as seen in Adobe's sharp de-rating from 50x to 15x earnings per share (EPS) despite robust earnings growth. These shifts highlight how quickly market narratives can unravel.

3. Capital intensity has structurally increased

The third pillar of the big tech thesis during the 2010s was hyper scalability.

Unlike most industries, big tech grew rapidly without requiring much incremental investment, allowing them to generate substantial free cash flow. For example, Google raised up to $50 million from inception through its IPO—a figure that would be unimaginable today. Similarly, Meta essentially required no incremental investment for each new subscriber.

This argument no longer holds true in the AI era. Big tech CapEx as percentage of EBITDA is now running at 50%-70%, which is similar to AT&T's 72% at the peak of the 2000 telecom bubble and Exxon's 65% at the peak of the 2014 energy bubble.



Source: GQG Partners LLC, Bloomberg. Data from 1997 to 2025. S&P 500 companies. Amazon, Alphabet, and Meta represent FY25 data. Microsoft and Oracle represent FY26 data. For illustrative purposes only. Content does not constitute investment advice and no investment decision should be made based on it.

In other words, AI CapEx has already caught up to prior bubble levels, even after adjusting for big tech's initial high margins. And historically, companies experiencing higher capital intensity tend to be structurally poor investments.

In both the telecom and energy bubbles, an exciting new technology (internet for telecom, shale for energy) justified unprecedented levels of investment. Eventually, supply outstripped demand, and the companies never earned a return on their investment, as discussed in our GQG Research Software is the New Shale[9]

We believe that a similar scenario could unfold with AI over the longer run, but in the short and medium term, the signs are questionable.

ChatGPT launched nearly three years ago, yet revenues for the "AI Natives", estimated to be less than US$20 billion today[10], still pales relative to the approximately US$7 trillion datacenter CapEx expected by 2030.

Many potential monetization angles, such as AI smartphones, have ended up being flops thus far. In our view, this is far worse than the internet bubble, which at least generated meaningful revenue.

Structurally lower returns on capital?

We believe today's intensive AI CapEx may structurally reduce returns on capital for the entire sector. Indeed, this is exactly what happened to the telecom sector during the 1990s fiber rollout.

Contrary to popular perception, telecom used to be a highly profitable sector made up of regional monopolies up until the mid-1990s. However, the combination of massive CapEx and increased competition permanently impaired the sector's economics by the late 1990s.

We think the fatal flaw was adopting a "if you build it, they will come" strategy, where telecom providers assumed new applications would get developed to take advantage of the excess bandwidth. In the end, the killer internet apps eventually popped up years later, but by then, it was already too late for the telecom sector.

We believe that today's surge of datacenter CapEx and cash-burning AI startups could end similarly to the telecom bloodbath from 25 years ago. In today's AI arms race, any company that does not buy the latest generation of technology may quickly be at a disadvantage. This is why companies like Oracle are now spending more than 100% of their operating cash flow on CapEx.

To date, big tech has been able to mitigate the impact of massive CapEx spending on their earnings by repeatedly extending the depreciation periods for their investments. We believe that current depreciation numbers are grossly understated as the hyperscalers need to keep buying the latest Nvidia GPU models, which are released annually, to stay competitive.

Once reality sets in, investors may find that earnings are massively inflated due to much higher depreciation.

A closing question

We are not perma-bears on the technology sector; in fact, we were comparatively larger buyers of Nvidia in 2023, and the stock has been among the top performers since the firm's June 2016 inception[11]. However, our views on the sector have since shifted.

Given our goal of capital preservation during downturns and our natural inclination to forgo some upside possibilities in favor of maximizing potential long-term compounding, we would be remiss if we did not raise the question:

How much of your net worth do you want invested in a cyclical sector where many of the largest players appear to be exhibiting growth deceleration, free cash flow margin deterioration, and increasing competition?

In our view, big tech no longer offers the unique growth it once did, yet it trades at lofty 30x-50x free cash flow multiples. We see better opportunities outside the tech sector.

[1]Hu, Krystal. "ByteDance surpasses Meta, plus Jensen Huang's fruitful trip in Beijing"Reuters. 17 July 2025.
[2]Marto, Ricardo. Le. Hoang. "The Rise of Digital Advertising and Its Economic Implications". Federal Reserve Bank of St. Louis. 10 October 2024.
[3]Source: GQG Research .
[4]Source: AWS 1Q2025 earnings call. Bloomberg.
[5]Reuters. "China plans network to sell surplus computing power in crackdown on data centre glut". July 2025.
[6]Butler, Georgia. "ServiceNow signs $1.2bn contract with Google Cloud – report". Data Center Dynamics. July 2025.
[7]Butler, Georgia. "Google Cloud wins $2.5bn contract from Salesforce". Data Center Dynamics. February 2025.
[8]Appenzeller, Guido. Bornstein, Matt. Casado, Martin. "Navigating the High Cost of AI Compute". Andreessen Horowitz. April 2023.
[9]Walker, Peter, Young PhD, Michael, Dowd, Kevin. "Q1 2025 VC Fund Performance Report." carta.com. 17 June 2025.
[10]GQG Research. "Is Software the New Shale?". GQG. December 2022.
[11]Agnew, Harriet. "AI will create 'more losers than winners' even as Nvidia soars". Financial Times. June 2023.

This is an abridged extract of GQG Partners' recent long-form article "Dotcom on Steroids". You can read the full article here.

This article contains general information only, does not contain any personal advice and does not consider any prospective investor's objectives, financial situation or needs. Before making any investment decision, you should seek expert, professional advice.

Resilience is the new alpha

Matt Reynolds

Volatility is nothing new for global markets. Investors have long learned to navigate cycles of boom and bust, inflation and disinflation, optimism and fear.

But trade policy — and tariffs in particular — introduces a different kind of risk. It is unpredictable, political, and often enacted suddenly, with little warning for businesses that rely on cross-border supply chains or global customer bases.

This unpredictability has become a recurring feature of the investment landscape in recent times. Tariffs are no longer just economic tools; they are instruments of geopolitical strategy, used by governments to protect industries or assert leverage in negotiations.

For businesses, that means disruption can arrive not from consumer demand or technological change, but from a policy decision made overnight.

For investors, the question is not whether to anticipate every headline, but how to identify the companies that can endure and adapt regardless of policy swings.

Companies with pricing power, flexible supply chains, and strong industry dynamics are not merely weathering this turbulence — they are using it to strengthen their competitive edge. These qualities are what define resilience, and resilience is what ultimately underpins long-term investment success.

Pricing power: Passing costs to customers

Pricing power is the most direct defence against tariffs. Companies with the ability to pass higher costs onto customers protect their profitability and market share. This advantage typically comes from products deemed essential, strong brand loyalty, or contractual structures that guarantee cost recovery.

Consider the HVAC industry. Heating and cooling systems are indispensable, and when they break down, they are replaced. Carrier Global, a leader in the sector, benefits from this reliable replacement cycle. Even in a tariff environment, such businesses can raise prices without losing demand.

Brand loyalty offers another buffer. Apple's customer base is famously less price-sensitive, giving it more leeway than rivals to absorb tariff-driven price hikes. Luxury brand groups such as Hermès also illustrate the strength of brand equity, with their long wait lists and ability to raise prices with little pushback.

Defense contractors, meanwhile, often operate under "cost-plus" contracts, where governments reimburse rising expenses. Even in fixed-price contracts, renegotiations allow adjustments over time. With defense considered strategically essential, demand remains steady despite shifting costs.

And in supply-constrained markets, pricing power strengthens further. Semiconductor leaders like NVIDIA and Broadcom, producing critical AI chips in tight supply environments, can raise prices to offset tariffs with minimal risk to demand.

Cost absorption: Shielding customers

For other businesses, protecting customers from higher costs may be the smarter strategy. Absorbing tariffs can defend market share and customer loyalty, especially if the disruption is temporary. This approach is most sustainable for companies with strong margins or broad scale.

Companies that operate in the medical device, biotech and pharmaceutical sectors are prominent in this respect, with high-margin models meaning they are well positioned to shoulder cost pressures.

Even in thinner-margin sectors, some companies choose cost absorption as a competitive tactic. For example, Chipotle has pledged not to pass tariffs on Mexican avocados to consumers, prioritising affordability and demand continuity over short-term margins. Walmart and Costco adopt similar strategies, defending their value-driven positioning by weathering temporary shocks themselves.

Supply chain adjustment: Rewiring for resilience

The most adaptable companies are those that can rewire supply chains to reduce exposure to tariffed goods. This often means shifting sourcing to alternative markets, investing in domestic capacity, or building “local-to-local” models where production occurs near the point of consumption.

During the recent US – China trade negotiations, many multinationals diversified production into Southeast Asia and Mexico. Those with global scale and multi-local strategies, such as Siemens, Carrier Global, and Schneider Electric, were able to pivot efficiently. By producing closer to customers, they reduced tariff exposure while retaining global reach.

Companies like Tesla highlight another path: vertical integration. By controlling more of its production process — from batteries to final assembly — and operating gigafactories in both Europe and China, the company reduces reliance on any single market. Its Shanghai plant sources 95% of components locally, insulating it from reciprocal tariff risks.

Industry dynamics: Sector matters

Resilience also varies across industries. Industrials, which typically import low-margin components but add significant value domestically, are less exposed to tariffs than industries heavily dependent on cross-border finished goods. Bulky, high-value products are often produced closer to their markets, limiting tariff sensitivity.

Automakers, by contrast, face greater exposure. Following the imposition of 25% tariffs on imported vehicles and parts, several European and Asian firms temporarily halted U.S. shipments. Shifting production is possible, but duplicating supply chains is costly and time-intensive.

Resilient companies within vulnerable industries are often distinguished by differentiated strategies. Tesla again provides an example: its combination of vertical integration and geographic diversification helps it navigate a sector otherwise highly sensitive to trade shocks.

Lessons for investors

What seems to be increasingly apparent is that tariffs may come and go, but uncertainty is here to stay. Trade policy has evolved into a geopolitical lever, meaning sudden shifts are part of the business environment for the foreseeable future.

For investors, the most effective response is not to react to each headline but to focus on the deeper qualities that allow companies to withstand disruption. Businesses that can defend margins, adjust supply chains, and retain customer loyalty are better placed to compound value over time.

Ultimately, investing is still about patience and perspective. Short-term tariff risks may unsettle markets, but they also reveal the businesses truly built for the long haul.

For those investors focused on building enduring wealth, the lesson is clear: resilience is not just a defensive posture — it is the cornerstone of long-term investing.

Matt Reynolds is an Investment Director for Capital Group Australia, a sponsor of Firstlinks. This article contains general information only and does not consider the circumstances of any investor. Please seek financial advice before acting on any investment as market circumstances can change.

For more articles and papers from Capital Group, click here.

The DNA of long-term compounding machines

Lawrence Lam

Investors are often trained to look for size as a proxy for safety. Blue chips, household names, and index leaders dominate portfolios not only because they feel familiar, but also because of herding bias – the psychological pull to follow the crowd rather than stand apart. But history shows that tomorrow's champions are often built quietly, well before they attract mainstream attention.

Canva's rise offers a case in point. Barely more than a decade old, the private design platform is now worth around $65 billion. It is more valuable than Telstra, Brambles, and Rio Tinto – companies that have taken over a century to build. While Canva is exceptional in scale, it highlights a broader trend: founder-led firms with aligned incentives and disciplined cultures will continue to reshape Australia's corporate landscape.

Why incentives matter

The way leaders are rewarded has a direct impact on the way businesses grow. According to the Australian Council of Superannuation Investors, 91% of Australia's top listed CEOs received a performance bonus last year, typically vesting over three years. This structure often drives short-term priorities.

Founders, in contrast, are rewarded only if their businesses thrive over decades. Their ownership stakes and reputations are tied to long-term outcomes. Their long-term motivation is reflected in bolder decision making, leaner organisational structures, and faster responses to change. For investors,

understanding these differences is critical in assessing why some companies compound value more effectively than others.

Telltale signs of founder behaviour

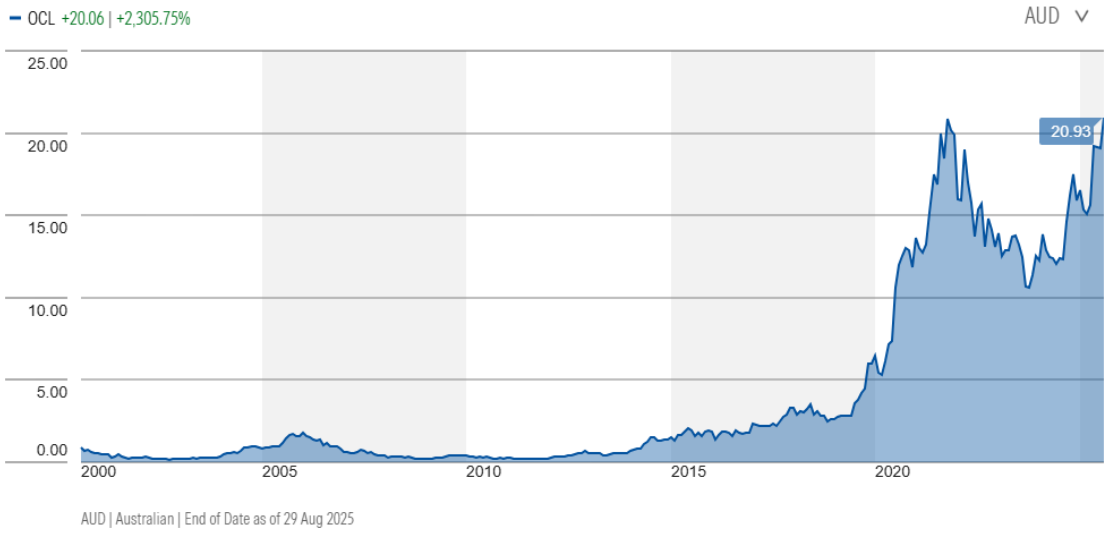
Founder-led firms are not immune from challenges. Some stall, others remain niche, and a few will fail outright. But collectively they demonstrate a pattern of behaviours investors can analyse:

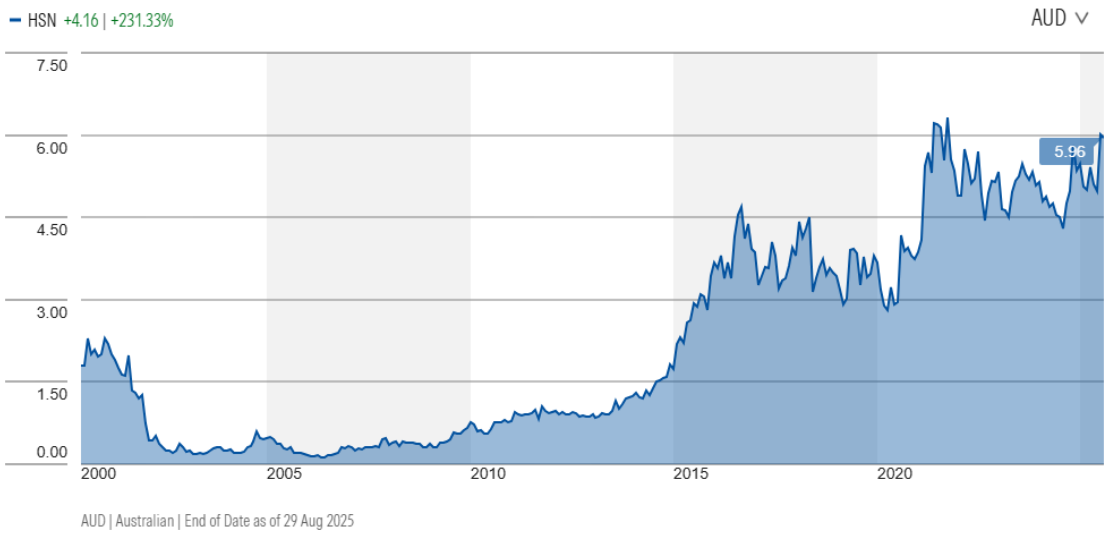
- **Capital discipline**: prioritising sustainable margins and reinvestment over empire building.
- **Alignment**: boards, executives, and shareholders cohesively building long-term value rather than chase personal gain.
- **Strategic patience**: committing to opportunities that compound over decades, even when short-term sentiment resists.
- **Scalable structures**: setting up organisation structures that ward off corporate bureaucracy and continue to proliferate the founder's philosophy

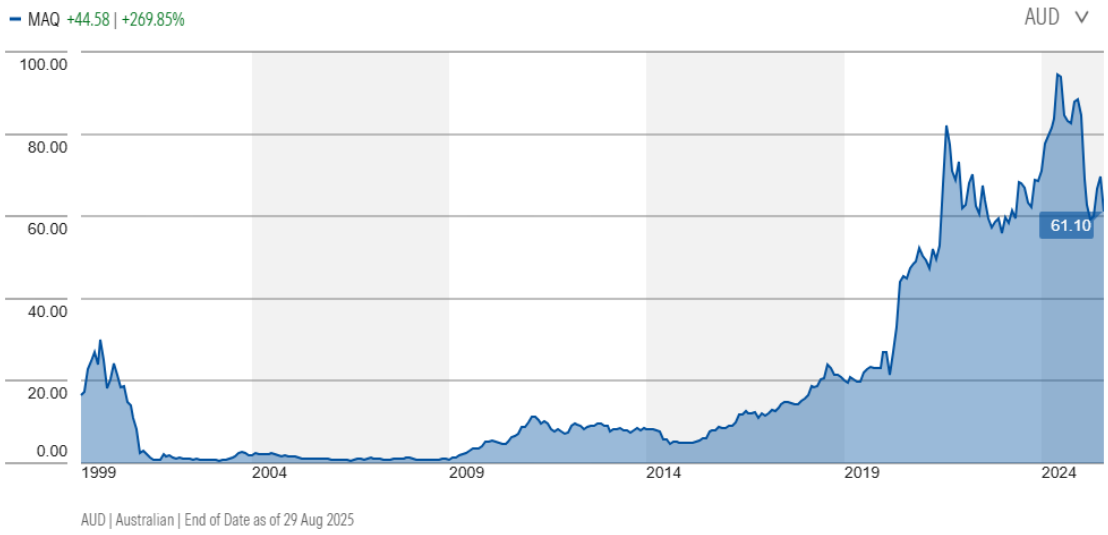
These traits do not guarantee success, but they are observable markers that investors can use when evaluating businesses and management team's decision-making.

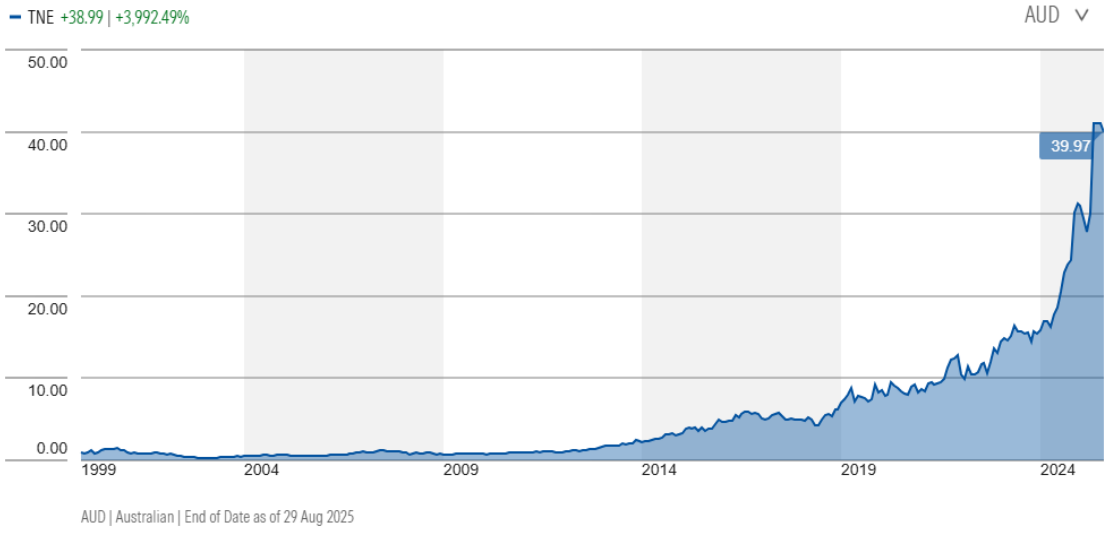
Emerging examples

This mindset is visible across a range of Australian companies. Objective Corporation [ASX:OCL] in government software, Hansen Technologies [ASX:HSN] in specialised software products, and Macquarie Technology Group [ASX:MAQ] in cloud and data services have all grown under founder influence. Private firms such as Expert360 and Lakeba are building new models in talent platforms and applied technology. Even mature names like Technology One [ASX:TNE] retain founder DNA in their culture of customer focus and capital efficiency.









Source: Morningstar.com.au

These are not stock recommendations, but case studies of how founder structures can shape performance. For investors, the lesson is not just which names to watch, but what patterns to recognise when allocating capital.

The takeaway for investors

The next generation of wealth creation is unlikely to come from the obvious megacaps. It is more likely to emerge from founder influenced firms that combine scalable models with long-term alignment. By the time these companies appear in index products or attract heavy broker coverage, much of the edge is already gone.

Investors who want exposure to this trend need to build frameworks for identifying founder alignment early, before the crowd does. That means going beyond market capitalisation, looking at ownership structures, and assessing the decision-making culture that sits behind the numbers.

Lawrence Lam is the author of The Founder Effect (Wiley) and Managing Director of Lumenary Investment Management. He writes on leadership, markets, and the traits that define exceptional management. More at lawrencelam.org and lumenaryinvest.com. The material in this article is general information only and does not consider any individual's investment objectives. Companies mentioned have been used for illustrative purposes only and do not represent any buy or sell recommendations.