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Editorial

Happy New Year to everyone. I trust you got through the festivities in one piece, albeit perhaps a kilo or two heavier.

Last year, *Firstlinks* published more than 400 articles, including editorials. We're lucky enough to have great sponsors that produce quality pieces for us on a regular basis. And we also source third party articles, including from writers who've become regular fixtures like Noel Whittaker, Harry Chemay, Ashley Owen, Kaye Fallick, Roger Montgomery, Tony Dillon, and Jon Kalkman. A big thank you to everyone who contributes to our newsletter.

Today, I've handpicked 20 of my favourite articles from last year. The topics range from generational equities and inequities to the $3 million super tax, retirement, LICs, franking credits, home batteries, as well as US exceptionalism and the AI boom.

I don't agree with all the articles, though I think one of the strengths of *Firstlinks* is publishing different points of view. What the articles have in common is that they're informative, thought provoking, and most have generated significant discussion among readers.

I hope you enjoy the list and do tell me which one was your favourite in 2025 (whether on the list or not). Each heading includes a link to the relevant article.

Which generation had it toughest? | Mark McCrindle | 6 August 2025
Each generation believes its economic challenges were uniquely tough - but what does the data say? A closer look reveals a more nuanced, complex story behind the generational hardship debate.

Simple maths says the AI investment boom ends badly | Harris Kupperman| 27 August 2025
This AI cycle feels less like a revolution and more like a rerun. Just like fibre in 2000, shale in 2014, and cannabis in 2019, the technology or product is real but the capital cycle will be brutal. Investors beware.

What history reveals about market corrections and crashes | Andrew Mitchell, Steven Ng | 19 Mar 2025
The S&P 500's recent correction raises concerns about a bear market. History shows corrections are driven by high rates, unemployment, or global shocks, and that there's reason for optimism for nervous investors today.

Supercharging the '4% rule' to ensure a richer retirement | James Gruber| 27 August 2025
The creator of the 4% rule for retirement withdrawals, Bill Bengen, has written a new book outlining fresh strategies to outlive your money, including holding fewer stocks in early retirement before increasing allocations.

The case for the $3 million super tax | Harry Chemay | 28 May 2025
The Government's proposed tax has copped a lot of flak though I think it's a reasonable approach to improve the long-term sustainability of superannuation and the retirement income system. Here's why.

A steady road to get rich | Tony Kaye | 25 June 2025
The latest lists of Australia's wealthiest individuals show that while overall wealth has continued to rise, gains by individuals haven't been uniform. Many might have been better off adopting a simpler investment strategy.

Are franking credits worth pursuing? | Geoff Warren | 13 August 2025
Are franking credits factored into share prices? The data suggests they're probably not, and there are certain types of stocks that offer higher franking credits as well as the prospect for higher returns.

Why the $5.4 trillion wealth transfer is a generational tragedy | James Gruber | 12 March 2025
The intergenerational wealth transfer, largely driven by a housing boom, exacerbates economic inequality, stifles productivity, and impedes social mobility. Solutions lie in addressing the housing problem, not taxing wealth.

Preparing for aged care | Brooke Logan | 1 October 2025
Whether for yourself or a family member, it's never too early to start thinking about aged care. This looks at the best ways to plan ahead, as well as the changes coming to aged care from November 1 this year.

Pros and cons of Labor's home batteries scheme | Noel Whittaker | 23 April 2025
Labor has announced a $2.3 billion Cheaper Home Batteries Program, aimed at slashing the cost of home batteries. The goal is to turbocharge battery uptake, though practical difficulties may prevent that happening.

Meg on SMSFs: Withdrawing assets ahead of the $3m super tax | Meg Heffron | 4 June 2025
The super tax has caused an almighty scuffle, but for SMSFs impacted by the proposed tax, a big question remains: what should they do now? Here are ideas for those wanting to withdraw money from their SMSF.

Are LICs licked? | James Gruber | 10 September 2025
LICs are continuing to struggle with large discounts and frustrated investors are wondering whether it's worth holding onto them. This explains why the next 6-12 months will be make or break for many LICs.

The super tax and the defined benefits scandal | John Abernethy | 28 May 2025
Australia's superannuation inequities date back to poor decisions made by Parliament two decades ago.

If super for the wealthy needs resetting, so too does the defined benefits schemes for our public servants.

Four best-ever charts for every adviser and investor | Romano Sala Tenna | 15 October 2025
In any year since 1875, if you'd invested in the ASX, turned away and come back eight years later, your average return would be 120% with no negative periods. It's just one of the must-have stats that all investors should know.

Chinese steel - building a Sydney Harbour Bridge every 10 minutes | Ashley Owen | 30 July 2025
China's steel production, equivalent to building one Sydney Harbour Bridge every 10 minutes, has driven Australia's economic growth. With China's slowdown, what does this mean for Australia's economy and investments?

Is this the real reason for gold's surge past $3,000? | Jeremy Pessemier | 9 July 2025
Concerns over the US fiscal position seem to have overtaken geopolitics and interest rates as the biggest tailwind for gold prices. Even if a debt crisis doesn't seem likely, there could be more support on the way.

2025-26 super thresholds – key changes and implications | Julie Steed | 5 March 2025
The ABS recently released figures which are used to determine key superannuation rates and thresholds that will apply from 1 July 2025. This outlines the rates and thresholds that are changing and those that aren’t.

The case for and against US stock market exceptionalism | Duncan Lamont | 15 January 2025
The outlook for equities in 2025 has been dominated by one question: will the US market's supremacy continue? Whichever side of the debate you sit on, you should challenge yourself by considering the alternative.

The challenges with building a dividend portfolio | James Gruber | 22 January 2025
Getting regular, growing income from stocks is tougher with the dividend yield on the ASX nearing 25-year lows. Here are some conventional and not-so-conventional ideas for investors wanting to build a dividend portfolio.

James Gruber

Also in this week's edition...

At this time last year, **Roger Montgomery** said to *Firstlinks* readers that they should ignore the naysayers because positive economic growth and disinflation would likely drive markets higher in 2025. Turns out, he was spot on. What's his advice for 2026? It's more nuanced this time around.

Romano Sala Tenna is becoming our resident market historian. In his latest article, he goes back in time to analyse how Australian equities have performed versus those in the US, and discovers that there have been ebbs and flows in comparative performance. Contrary to consensus opinion, he suggests that the time may be ripe for ASX stocks to again take the lead.

Don Stammer's X-Factor series has become an institution in financial circles and we're glad that Don has chosen to write what may be the last in the series for *Firstlinks*. What is the X-Factor - the largely unexpected influence that wasn’t thought about when the year began but came from left field to have powerful effects on investment returns - for 2025? Here, Don announces his winner.

What is progress? Is it GDP growth? Increasing wealth? New and improving technology? **Anthony Deden** argues that our measure of progress has become warped, and we're heading backwards rather than forwards.

Holiday breaks are made for dipping into a good book. **UniSuper** has helpfully put together a list of possible summer reads on topics ranging from leadership, investing, and well-being.

Lastly, in this week's whitepaper, the **World Gold Council** provides its outlook for the yellow metal in 2026.

Curated by James Gruber and Leisa Bell

Get set for a bumpy 2026

Roger Montgomery

Hello, and a very Happy New Year to you.

This time last year, I urged investors here at Firstlinks to ignore the "chorus of market watchers insisting the current rally in equities is overdone and that markets are ripe for a correction." Instead, I explained why 2025 could be another positive year, revisiting the logic behind the bullish stance we've maintained since 2022, and through 2023, and 2024.

Turns out, 2025 was indeed another positive year.

For convenience, the logic behind the belief in a solid 2025 was based on two conditions precedent: positive economic growth coinciding with disinflation. Show me a time since the 1970s when disinflation coincided with positive economic growth, and I will show you a period that is likely to have featured a solid stock market performance led by innovative companies with pricing power.

Since 2022, when we turned positive, innovative companies have led investor returns.

From their low in November 2022, Alphabet's shares have risen 269% at the time of writing, Meta is up 613%, Microsoft is 122% higher, Apple up 115%, Amazon is 177% higher, and Nvidia – the company at the epicentre of the artificial intelligence (AI) boom – is 1,476% above its 2022 low.

So, despite calls at the beginning of 2024, for a downturn, the conditions that buoyed equities in previous years – positive growth and disinflation – persisted. Perhaps unsurprisingly equities markets also rose.

This time last year, however, I noted that disinflation and positive economic growth, when combined with America's unique advantages – including world's best productivity and demographics, world-leading investment in research and development and energy self-sufficiency could capture the collective imagination of investors to such a degree that the boom could become a bubble by late 2025.

Then, in August, here in this column, I wrote, "I am not advocating selling out of stocks, not by any stretch, but it may now be a good time to consider bringing forward any planned rebalancing… to redistribute profits to [investments] with less exposure to public markets."

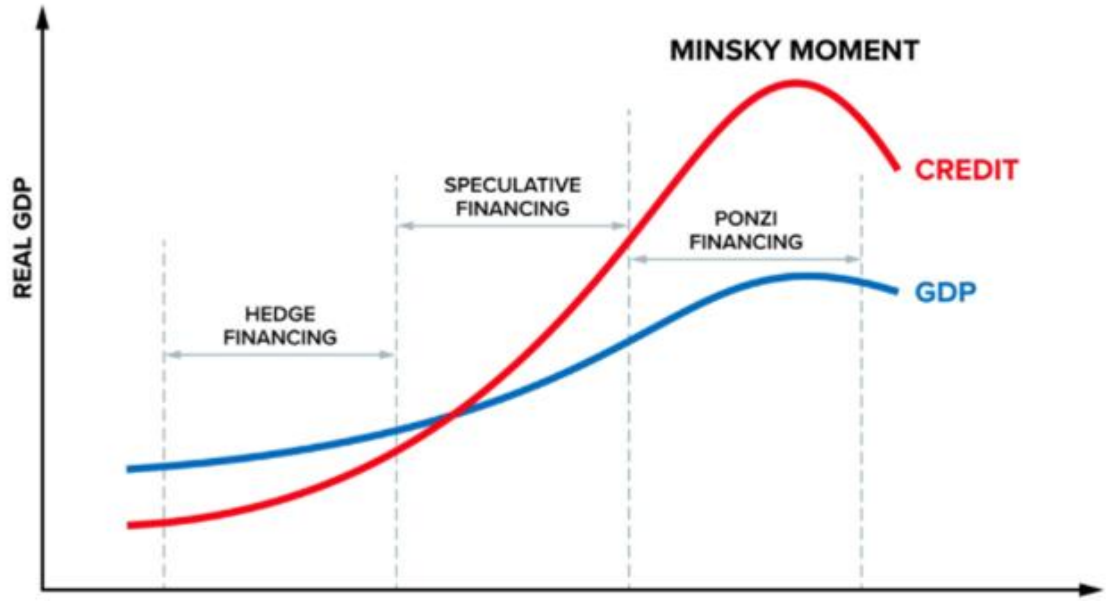
The thinking is unassuming. What the intelligent individual investor does early on, the crowd tends to mimic later. And even smart people can do dumb things! Even if conditions like disinflation and positive economic growth are in place, prices can (due to the herd's excitement) stray from even the most optimistic potential scenarios. When this occurs, the reasons that supported an investment at the beginning no longer support it in the end.

Talk of bubbles is now widespread – arguably too widespread to confidently say we are in one. Of course, no market moves in a straight line, and corrections will occur, and can occur, without a catalyst or trigger.

Perhaps, then, we can most productively use our time to decide whether current market conditions warrant the 'bubble' descriptor.

Economist Hyman Minsky developed the "Stages of Financing" within an economic cycle, culminating in a Minsky Moment. He described how a period of stability can lead to increased risk-taking and ultimately to a market collapse.

Figure 1. Stages of financing



The blue line in Figure 1., represents real Gross Domestic Product (GDP), while the red line reflects the relative level of credit growth.

Initially, the economy is characterised by "hedge financing," in which borrowers meet all their debt obligations with cash flow. This is often because very little debt has been adopted. In the early stage of a boom, the surrounding hype pushes share prices up, enabling companies to finance the scaling of their dreams through equity issues. As the cycle progresses, however, companies at the centre of the hype switch to debt, and as the debt accumulates, "speculative financing" becomes dominant. This is where borrowers can cover interest but must refinance the principal.

In Minsky's final stage "Ponzi financing" abounds. This is when borrowers can't even cover interest payments and rely solely on rising asset values to service debt.

The "Minsky Moment" occurs when asset values collapse, leading to a sudden and major market downturn as credit levels sharply decline.

While we don’t yet appear to be close to a final Minsky stage, it is worth keeping an eye on OpenAI. The company has forecast this year’s $US9 billion loss will grow to $US74 billion by 2029. At that point, debt will be materially higher than it is today.

In the language of finance, few terms are as frequently debated – and as poorly understood – as ‘bubble’. Usually, definitions compare quantitative overvaluation with qualitative behavioural mania, but an issue remains: a bubble is only truly confirmed post hoc – by its collapse.

We can’t rely on hindsight to navigate the present, but history provides a library of exuberant periods of excess to help diagnose current market conditions. By repeatedly spinning the bottle, I cannot help but be concerned that it keeps pointing to a convergence of valuation distortion, liquidity saturation, and a hazardous fallacy about competitive capitalism.

The fallacy of exceptionalism – this time is not different

The clearest signal of a late-stage cycle is a breakdown in the logic of competition. In a functioning market, capital discriminates between winners and losers. In a bubble, that discrimination vanishes.

In late 2025, we observed a market where an entire sector was priced as if the concept of ‘laggards’ had become obsolete. When the valuation of a sector’s third-tier competitors rises in lockstep with that of the market leaders, investors have succumbed to a fallacy of composition. They implicitly assume that aggregate earnings can expand infinitely to justify the pricing of every constituent in the sector.

This is a mathematical impossibility. When the forecasted summed earnings of an entire industry exceed the Total Addressable Market (TAM) of the broader economy, we have left the realm of investing and entered a period of collective fiction.

That began in late 2025. AI companies can’t all win. The AI theme might be perceived to be ‘structural’, but AI customers are ‘cyclical’. Customer appetite for AI tools will be determined by their price as much as, or even more than, their utility.

Meanwhile, hyperscalers and their data centre dreams will also eventually face a cyclical commercial reality that includes construction delays, energy price spikes, blackouts, brownouts, and drought. Already, Australian state government ministers are questioning the data centre aspirations of an industry that demands 20% of Sydney’s water supply be utilised for cooling.

The quantitative dislocation

The classic definition of a bubble – a decoupling of price from intrinsic value – remains the bedrock of bubble identification. Metrics like Robert Shiller’s Cyclically Adjusted Price-to-Earnings (CAPE) ratio and John Hussman’s Market Cap to Gross Value Added (GVA) were developed to strip away cyclical noise and reveal these structural distortions.

In the Dot-com boom valuations hit triple-digit multiples of sales for companies with negative operating margins. At that point, the market was no longer discounting future cash flows; it was discounting a utopia that could never materialise.

Have we reached that stage yet? Perhaps not. Measurably extreme valuations are the product of extreme behaviour. So, while metrics quantify the bubble, psychology fuels it. Hyman Minsky and

Charles Kindleberger famously mapped this pathology not as a static event, but as a five-stage dynamic process: displacement, boom, euphoria, profit-taking, and panic.

And as Figure 2., (no doubt inspired by Sir John Templeton's aphorism that "bull markets are born on pessimism, grow on scepticism, mature on optimism, and die on euphoria"), reveals, AI investors might be optimistic, they may even be excited and greedy, but are they euphoric? I think not.

Figure 2. The mood rollercoaster

Source: Northwestern Mutual

The 'Greater Fool'

John Kenneth Galbraith, in his seminal work *The Great Crash 1929*, best captured the point of no return. Galbraith identified the peak of a bubble as the moment when the utility of an asset – its income or the value of its use – becomes 'academic', and the only remaining value proposition is the asset's price velocity. If buyers are acquiring an asset not because they care about its underlying value, or its usability to them, its long run worth, nor its income, but only because it's likely to 'go up' more, Galbraith suggested you have already reached the summit.

His idea is formalised in the "Greater Fool Theory": the belief that valuation is irrelevant so long as liquidity remains deep enough to provide a greater fool with even more money to purchase the asset from you at an even higher price.

It's most evident in the market for abstract vehicles of speculation – meme stocks, Pokémon cards and even altcoins. We see it today in the betting markets of Polymarket and the speculative fringes of the crypto-asset class, but because these 'assets' aren't on the balance sheets of systemically important financial institutions, they might be at best a hint of excess liquidity.

The liquidity trap and the AI CapEx paradox

Finally, we should address the fuel source. A growing body of academic literature suggests that bubbles are less a product of optimism and more a function of excess liquidity.

The U.S. housing bubble of the mid-2000s was not driven solely by a desire for homeownership, but by a global savings glut and artificially suppressed interest rates that sought a yield-bearing home. Similarly, the Japanese asset bubble of the late 1980s – where the Imperial Palace grounds were theoretically worth more than all real estate in California – was driven by corporate cross-holdings and easy credit, creating a feedback loop of collateral value.

Today, it seems, we face a similar "irrational exuberance," to borrow Alan Greenspan's phrase, but with a technological twist. We are witnessing record global liquidity chasing that singular AI narrative.

The concern for investors is not whether AI is real – the internet was real in 1999, too –but whether the economics work. We are currently seeing massive capital expenditure (CapEx) that requires a generation of revenue to justify. The global economy simply may not possess the capacity to generate the revenues required to recoup these investments on the timeline the market has priced in.

The outlook for 2026

While there are clear signs of enthusiasm and excess, we haven't reached the euphoria evident in past manias. For that reason, I don't believe we've entered a bubble. Of course, we cannot know until it has burst, and markets can correct at any time. After three very good years for equities, the higher prices, higher valuations, and the irrational belief in the smooth north-easterly expansion of AI adoption suggest 2026 could be more volatile than past years.

We have been bullish for three years, but in 2026 we adopt a more cautious outlook. The response? Rebalance your portfolio as you do annually, to take your asset class weightings back to those that reflect your risk appetite and financial circumstances and needs.

In other words, if equities were once 60% of your portfolio and, because of their strong absolute and relative performance, now represent 70% of your portfolio, bring the weighting down to 60% by reinvesting in other asset classes.

For what it's worth, I'd consider a judiciously selected private credit fund, one without property developer exposure, a short duration book of underlying loans, at least monthly liquidity, no lockups, earning 6-9% per annum and producing monthly cash income. Alternatively, a market-neutral arbitrage fund with a track record of double-digit returns. Whatever you choose, seek to diversify those equity profits into funds with little or no exposure to public markets.

In 2026, there could be the odd bump.

Roger Montgomery is the Chairman of Montgomery Investment Management and an author at www.RogerMontgomery.com. This article is for general information only and does not consider the circumstances of any individual.

History says US market outperformance versus Australia will turn

Romano Sala Tenna

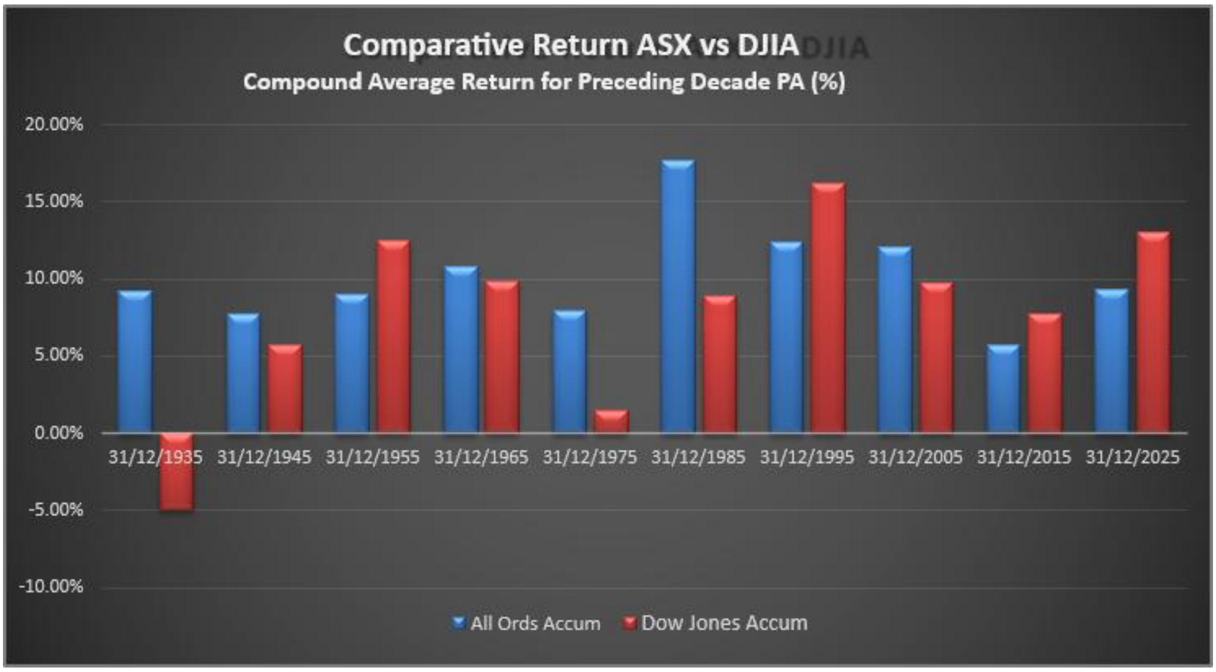
Much has been written about the ‘exceptional’ performance of the US stock market versus the Australian index. However, the reality is not in line with the perception.

Similar to the All Ordinaries Accumulation Index (AOAI), the Dow Jones Industrial Average (DJIA) comprises a vast array of sectors and subsectors. In recent times, the US Technology sector – as represented by the NASDAQ Composite (NASDAQ) – has outshone and outperformed all other indices by a substantial amount. The ‘Magnificent 7’ have certainly experienced a period of ‘exceptionalism’. This has led to the NASDAQ notably outperforming even its equivalent ASX Technology Index (XIJ), especially since Q3 of this year when the indices diverged considerably. The chart below shows this, with the green line representing the Nasdaq, the white line the ASX Technology Index, while the blue and red lines are moving averages around XIJ.

Source: IRESS

However, NASDAQ is not the US market. The NASDAQ does not represent the US economy or the experience of investors in that economy. It is a subset in the same way that the XIJ is a subset of the Australian market. To compare the NASDAQ to the AOAI, would be akin to comparing the DJIA to the Australian Resources Sector during one of its many boom cycles.

Rather, if we compare markets as a whole, the picture is rather different.



Source: Katana Asset Management Analysis

In the prior chart, the red bars represent the average per annum return for the Dow Jones Industrial average (including dividends) broken up by decades. The blue bars represent the same data for the Australian market.

The first lesson to draw from this graph, is that over the very long term, **Australian equities have actually outperformed the US market, and with substantially less volatility.**

In terms of performance, the compound average annual return for the Australian market has been **10.15%** over the past 100 years. For the DJIA, the comparable figure is **7.85%**. This is quite different to the common perception.

And these returns have been achieved with lower average volatility. For example, the average per annum return for the AOAI over a decade has never been negative, whereas during the depression years, the US market averaged -4.97% per annum (even with the benefit of dividends). Similarly, in the decade ending 1975, the US market returned an average of 1.48% per annum, whereas the Australian index averaged 7.91% per annum.

As a final point on this first lesson, it is also pertinent to remember that this data does not include franking credits. Our analysis suggests that since franking credits were introduced in 1987, this has averaged approximately 1.3% per annum.

The second lesson to be drawn from this data is that **market strength runs in cycles**. In the three decades ending 1965, 1975 and 1985, the ASX outperformed the US market. In the decades ending 1975 and 1985, this out-performance was immense. Of course, more recently in the decades ending 2015 and 2025, the US market has been the stronger performer. And this can lead to a skewed view of the world. But cycles of performance are not measured in weeks or months, but rather years and decades.

This really bores out the third lesson: **the ASX has had a period of quite significant under-performance in the past 2 decades**. Especially in the decade ending 2015. In fact, if we strip out dividends, capital growth for this decade was a miserly **1.18%** per annum. This is a long way short of the 6%+ pa capital growth we would normally expect to experience. Again, this can lead to a distorted perception that the glory days for the ASX are over. However, investors who take the time to understand history will realise that this is part of a much larger but repetitive cycle.

This leads to the fourth and final lesson: **history supports the view that the ASX will have a period of comparatively stronger performance in the coming years**. Even though we may struggle to see the drivers as we sit here today, history tells us that they will emerge. Most recently, the National Bank of Canada tipped Australian equities as having amongst the best prospects on a 10- and 30-year perspective. And it's not a fringe view. It's shared by a group of global asset allocators collectively managing more than $27 trillion, including Vanguard, State Street, and MFS.

Looking forward, it may be hard to see what might drive the next wave of ASX out-performance, but history is a good guide and should not be dismissed. At Katana, we have identified some areas that make us cautiously optimistic:

1. Destination of Desire (Immigration) - the quality of living in Australia is highly attractive from a global perspective. In 2024, Australia ranked number #5 globally for the net-inflow of millionaires. Skilled and affluent migrants have an enormous and direct impact on the flow of capital, consumption and taxes.
2. Resources Boom - Australia remains the second-largest producer of natural resources globally. LNG, lithium and critical minerals are growing in importance, supplementing long term stalwarts in iron ore, coal and gold.
3. Tourism - some European countries (such as Spain) are tapped out and looking at limiting tourist visas. Australia is particularly well placed to grow tourism, especially in light of our proximity to the massive emerging middle classes in China and India.
4. Superannuation System and Financial - Australia's superannuation pool remains the 4th largest globally, which when combined with strong corporate governance, provides the critical mass for a strong yet stable regional financial hub.
5. Agriculture - the global middle-class is growing substantially, requiring higher rates of protein per capita. Australia has abundant and clean land, in good proximity to these emerging demand centres.

And of course there are many other reasons to be optimistic, including the international student industry, our recognised global expertise in health and a growing entrepreneurial DNA which has spawned a modest but not insignificant number of leading technology companies. But whether or not it is these factors that ultimately drive comparative outperformance, what many decades of data indicate, is that it will come.

Summary

1. Australian Equities have outperformed the US over the long term (plus franking credits), and with substantially less volatility
2. Market returns run in cycles
3. Australia has had a period of underperformance in the past 2 decades
4. There are reasons to be optimistic that this will revert at some point in the future.

Romano Sala Tenna is Portfolio Manager at Katana Asset Management. This article is general information and does not consider the circumstances of any individual. Any person considering acting on information in this article should take financial advice. Past performance is not a guarantee of future performance. Stock market returns are volatile, especially over the short term.

Notes on statistical calculations

i. Compound annualised return is the most representative measure. It is calculated by compounding each annual return for the decade to arrive at a true compound result. Then the amount is 'reverse compounded' to arrive at an annualised figure using the formula (1+compound total)^(1/10)-1.
ii. The annualised return in (1) is lower than a linear statistical average annual return for the decade but represents the true figure allowing for the vagaries of statistics. For example, a 50% increase followed by a 50% decline arrives at a linear average of 0%. However, in compound terms, a 50% rise followed by a 50% fall is a net fall of 25% from the original index starting point. Reverse compounded, this arrives at a return of -13.4% pa (((1-25%)^(1/2))-1).
iii. The All Ordinaries Accumulation index commenced in 1979, from which time accurate dividend data is available. Prior to this, only estimates were available. The average dividend yield during this 46-year period was 4.51%. This has been assumed for the earlier years when data was not available.
iv. Similarly, the average dividend yield since records commenced in the DJIA is 2.71%. This has been applied to earlier years to calculate an approximation for the DJIA accumulation index.
v. The S&P 500 is a more complete representation of the US market. However, despite recent variations in performance, over the past 100 years, the 2 indices have performed largely in line.

Announcing the X-Factor for 2025

Don Stammer

Each December, an old habit returns – identifying the year's **X-Factor** – the unexpected force that materially shapes investment outcomes.

The concept dates back to 1974, when I left the Reserve Bank to join Bain & Company. Soon after, Japanese life offices and pension funds began buying Australian bonds in significant volumes. At a lunch discussing these inflows, I referred to them as "Factor X" – later changed to **X-Factor** – to describe an influence that emerges unexpectedly and meaningfully shifts markets.

An X-Factor does not replace analysis of economic conditions, shares, interest rates, property, or currencies. Rather, it highlights the reality that markets are often driven by surprise developments. Recognising these early can enhance returns, although sound diversification and prudent risk management – particularly in retirement – remain essential.

Past X-Factors

Positive surprises have included:

- the floating of the Australian dollar in 1983;
- Paul Keating's 1986 "banana republic" warning, which helped drive fiscal reform;
- the sustained collapse of inflation from 1991;
- Australia's resilience during the 2008 global financial crisis due to strong Chinese demand;

- the equity market rebound from 2009;
- the post-Covid market recovery; and
- the powerful rally in US technology stocks from 2023 to 2025.

Negative shocks have included:

- the 1994 bond yield surge;
- the Asian financial crisis;
- the September 2001 terrorist attacks;
- the collapse of Enron;
- the near-meltdown of global finance in 2008;
- Covid-19; and
- today's heightened geopolitical risks – arguably the most severe since World War II.

Recent Experience

My X-Factor selections were largely uncontroversial until 2021, when I argued that the long-standing belief in permanently low inflation was fracturing. In subsequent reports on Factor-X in this publication I projected inflation rising to 4-5%, a view that proved broadly correct.

Finalists for the 2025 X-Factor

Key contenders include:

- economic disruption from President Trump's tariff policies;
- the risk that US inflation exceeds current expectations, driven by large fiscal deficits and rapid money growth;
- Australia's inflation outlook, which could see price increases over 2026 at about the current level of the cash rate given accelerating money supply, strong wage growth, increased government spending, and global inflation spillovers;
- concerns about valuations of US technology and AI-related stocks;
- record-high gold prices as an inflation hedge; and
- the rapid escalation of geopolitical risks – despite risk assets ending the year near record highs.

(Productivity stagnation remains a major issue but is too long-running to qualify as this year's X-Factor.)

And the winner Is …

The rules have changed. There is no single X-Factor for 2025. Instead, it is the **combination** of two forces:

- the growing likelihood that many countries, including Australia will require **tighter monetary policy** to offset the impact huge budget deficits will have on generating inflation;
- the uneasy coexistence of **elevated geopolitical risks** with **asset prices near historic highs**.

Don Stammer has been involved in investing for more than six decades as an academic, senior official of the Reserve Bank, an investment banker, the chairman of nine companies listed on the ASX, and a columnist for The Australian and Business Review Weekly.

In recent months, Don has joined with Ashley Owen and Shani Jayamanne in setting up the Dr Don Academy, which aims to provide guidance – to young investors particularly –by drawing on the three founders' combined investment experience of 124 years.

This article is general information only and does not consider the circumstances of any investor.

44 years of the X-Factor file

2025 The likelihood that many countries will need tighter monetary policy and the uneasy coexistence of heightened geopolitical risks with asset prices near historic highs

2024 The US economy is in its sixth year without experiencing recession, despite the many and frequent predictions of a deep and imminent economic downturn

2023 The surge in share prices of US tech stocks, and the better understanding of how they should be valued

2022 High inflation, tighter monetary policies, and sharp rises in interest rates

2021 The fracturing of the long-dominant view low inflation is here to stay

2020 Covid-19

2019 Strong share markets despite repeated predictions of global recession

2018 The impact from the royal commission on financial services

2017 The positive macro influences that, globally, restrained volatility, boosted shares and kept bond yields low

2016 Election of Donald Trump as US president

2015 Widespread experience of negative nominal interest rates

2014 Collapse in oil price during severe tensions in middle east

2013 Confusion on US central bank's "taper" of bond purchases

2012 The extent of investors' hunt for yield

2011 The government debt crises in Europe

2010 The government debt crises in Europe

2009 The resilience of our economy despite the GFC

2008 The near-meltdown in banking systems

2007 RBA raises interest rates 17 days pre-election

2006 Big changes to superannuation

2005 Modest impact on economies from high oil prices

2004 Sustained hike in oil prices

2003 Marked fall in US dollar

2002 Extent of US corporate fraud in Enron etc

2001 September 11 terrorist attacks

2000 Overshooting of exchange rates

1999 Powerful cyclical recovery across Asia

1998 Resilience of our economy despite Asian crisis

1997 Asian financial crisis

1996 Global liquidity boom created in Japan

1995 Powerful rally in US markets

1994 Sharp rise in bond yields

1993 Big improvement in Australian competitiveness

1992 Souring of the vision of "Europe 1992"

1991 Sustainable collapse of inflation**1990** Iraq invasion of Kuwait

1989 Collapse of communism

1988 Boom in world economy despite Black Monday

1987 Black Monday collapse in shares

1986 "Banana Republic" comment by Paul Keating

1985 Collapse of A$ after MX missile crisis

1984 Measured inflation falls sharply

1983 Free float of Australian dollar

1982 Substantial Japanese buying of Australian bonds

The illusion of progress

Anthony Deden

This essay was born out of revulsion to an accidental summer reading that paraded progress as virtue and private equity as its high priest. Every paragraph spoke the same pious language of "sustainable improvement," "societal benefit," and "long-term value creation," as though leverage, asset-stripping, and balance-sheet cosmetics had become moral acts. I found myself revolted not merely by the hypocrisy, but by the vacuousness of it. In our hyper-financialized society, we have come to mistake valuation for value, and activity for achievement. The word 'progress' has been exploited to justify anything that moves – no matter what it destroys. What follows is an act of refusal to bow to the idea that more money is progress. If this essay has a motive, it is contempt for the trivial slogans that pass as thought, and for the hollow theory that confuses financial engineering with human improvement.

> *Illusion is the first of all pleasures.*
> *Voltaire. La Pucelle d'Orléans. Édition London: [publisher unspecified], 1756. Epilogue.*

Once upon a time, progress meant a tangible conquest of necessity – something that could be seen, held, and mended. Progress was the story of men and women mastering nature through invention: the plough that turned survival into surplus, the compass that unlocked the seas, the printing press that scattered learning beyond the cloister. Each advance widened the circle of freedom and gave shape to civilization's rise.

The 18th and 19th centuries quickened that rise. Steam compressed distance, iron bridged rivers and continents, and the telegraph carried thought at the speed of light. Gaslight and electricity stretched the day, and clean water, sanitation, and medicine pushed death to the margins of daily life. Progress could be counted in engines built, bricks laid, and diseases conquered. It was visible, measurable, and grounded in use.

Furthermore, the results were tangible. Between 1800 and 1900, average life expectancy in Western Europe rose from about 35 to 55 years. Real wages roughly tripled. Literacy spread from a minority to the great majority of the population. A factory worker's wage could buy more food, clothing, and comfort than an artisan's income a century earlier. A home might possess running water, heat, light, and – by the early 20th century – affordable transport and communication. Progress was not an abstraction: it could be counted and measured.

Behind these visible achievements lay an invisible order. Enterprise rested on saving; saving depended on restraint. Honest money was scarce, redeemable, and real. It connected effort to reward and production to value. The world was built by those who produced before they consumed. Credit, too, was a bridge between past work and future creation, not a source of perpetual motion. Money and goods moved in harmony: each note represented something earned, something built.

When nations laid railways or spanned oceans, they did so with capital saved by citizens. In other words, deferred pleasures were converted into steel and stone. Inventors like Watt and Edison advanced not speculation, but service. Their genius enriched the common life. The free market was not yet a casino but an arena of usefulness, where prosperity followed contribution. And yes, profit was evidence of having met a genuine need.

By the dawn of the 20th century, progress had become a landscape that was visible in telegraph poles, tramways, and electric light. It carried an almost moral confidence: that man, guided by reason and effort, could make the world better in substance, not merely in symbol. Henry Grady Weaver tells us that the mainspring of progress was not energy from coal or oil, but from man himself – his imagination disciplined by liberty. When he lost faith in that freedom, his machines outlived his spirit.[i]

Hans-Hermann Hoppe reminds us in *A Short History of Man* that for most of human history, progress meant learning to act rationally within limits – to use intelligence, thrift, and cooperation to transform scarcity into sufficiency. It required discipline, prudence, and the willingness to live within limits.[ii]

The real advances of mankind – from cultivation to industry – were not the gifts of invention alone but of moral order: the discovery that property, family, and saving could bind effort to consequence and turn scarcity into sufficiency. Progress was an achievement of character before it was a measure of output. It was the steady improvement of life through virtues that bound action to consequence: thrift, property, responsibility, and the protection of what one built.

Yet, by the early 20th century, this older meaning of progress – rooted in work, discipline, and the tangible improvement of life – was already beginning to fade. The moral foundations that once joined virtue to growth began to erode. The word itself was captured by a new creed – one that mistook abstraction for achievement, and motion for improvement. Slowly, the means of creation turned into the means of speculation.

When finance replaced production

The material age that had built bridges, ships, and power stations entered the twentieth century with unshaken faith in its own momentum. Yet beneath the surface, the structure of enterprise was already changing. The tools of finance – credit, capital markets, and accounting – were invented to fund production, but they began to evolve faster than the production they were meant to serve.

In the early industrial order, money and goods moved together. The banker was the steward of accumulated savings, and the stock exchange was a meeting place between the thrifty and the enterprising. Investment was a form of partnership between labor, invention, and capital. But as the century advanced, finance detached itself from its material foundations. Paper claims multiplied far beyond the stock of tangible goods. The abstraction that had once facilitated trade began to define it.

Two revolutions hastened this separation. The first was monetary: the gradual abandonment of money's anchor in real value. Convertibility yielded to confidence; credit creation replaced saving. As Hans-Hermann Hoppe observed, when money ceases to be anchored in real value, society's time preference inevitably rises: the future is discounted, patience gives way to immediacy, and the long view of the builder yields to the short view of the trader.[iii]

The second revolution was institutional: the rise of corporations whose worth came to rest less on what they produced than on what others believed they were worth. Accounting, once the record of fact, became the medium of expectation.

By the mid-twentieth century, profits no longer required production in the traditional sense. Balance sheets could expand through debt; share prices could rise through mergers, acquisitions, and later, buybacks. Speculation in financial instruments grew to rival the industries whose securities they represented.

Murray Rothbard warned that such monetary inflation does not enrich society as a whole but transfers its substance – quietly and systematically – from producers and savers to those nearest the source of new credit. What appears as growth is, in truth, redistribution masked by rising prices and expanding balance sheets.[iv]

In the end, this transformation redefined what society meant by 'growth'. The prosperity of the industrialist had once rested on their capacity to make and sell useful goods; the prosperity of the financier now depended on movement within the realm of symbols – interest rates, valuations, derivatives, and expectations. The appearance of wealth became a substitute for wealth itself.

The change also altered the time horizon of enterprise. A factory demanded years of patient investment, but a financial product could be invented and sold within weeks. The long view of the builder yielded to the short view of the trader. Markets rewarded agility, not durability. The capacity to arbitrage, restructure, or re-package assets came to be regarded as a higher skill than the slow work of design and manufacture.

In this environment, the language of production gave way to that of returns. Efficiency was redefined as the reduction of costs rather than the creation of value. Whole industries were re-engineered for balance-sheet optimization rather than technological advance. A company could shrink its workforce, outsource its factories, and still be celebrated for "unlocking shareholder value." The metric of success was no longer what was built or improved, but what the market capitalization reflected.

The cultural prestige of finance rose in parallel. The banker and fund manager replaced the engineer and merchant as models of success. Economic life migrated from workshops to screens; from things to figures. Profit became an end in itself, divorced from the human activity that had once justified it. The purpose of enterprise – serving needs through production – was eclipsed by the perpetual pursuit of financial gain.

In this new order, even money lost its solidity. It became not the record of past effort but the anticipation of future policy. Credit creation, once a bridge between savings and investment, turned into a self-replicating process: new debt to sustain old, new liquidity to sustain valuations. Guido Hülsmann later described this as the moral hazard of fiat money. That is, a regime in which falsified measures of value erode the link between action and consequence, allowing entire societies to consume the illusion of wealth while their real capital quietly decays.[v] Indeed, the system could grow without building anything at all, so long as confidence held.

Thus the illusion took form. Finance, which had begun as the servant of production, became its master. The making of goods receded behind the making of prices. The expansion of credit came to be celebrated as progress, and the multiplication of paper wealth as proof of prosperity. The old sequence – save, invest, produce, profit – was inverted. What had once been a measure of achievement became the object of it. The world entered an era in which the acquisition of money, detached from material purpose, was mistaken for progress itself.

False measures – Why GDP misleads

The illusion of progress gained its most enduring disguise in the language of measurement. Numbers replaced judgment, and the gross domestic product became the supreme idol of economic life. Conceived in the 1930s to estimate wartime output and industrial capacity, GDP was never meant to represent human welfare or civilizational advancement. It counted production for the sake of mobilization, not prosperity.[vi] Yet over time, this emergency metric came to define progress itself.

GDP measures the speed of activity, not the value or purpose of what is done. It tallies every transaction as growth, whether it builds a bridge or bombs one, whether it cultivates soil or strips it bare. The cutting of a forest, the repair of its flood damage, and the lawsuits that follow each adds to the total. Destruction and recovery register as twin booms. As stupid as it sounds, in this arithmetic, a society may spend itself into apparent wealth.

As sober economists have noted, GDP's blindness extends beyond moral and qualitative dimensions to structural ones. It measures the economy's endpoints while ignoring the intricate chains of production that sustain them. As Mark Skousen observed, Gross Output – what he called "the top line" of national accounting – captures this hidden architecture, whereas GDP records only the "bottom line." The result is a statistical mirage: activity looks healthy even as the capital structure deforms. Under easy credit, GDP swells not through productive depth but through monetary distortion, mistaking inflation and malinvestment for prosperity.[vii]

This illusion deepens because GDP cannot distinguish between creation and consumption, between genuine capital formation and the liquidation of the past. It registers motion, not meaning. When a company borrows to buy back its shares, GDP rises. When financial speculation multiplies without adding a single good or service, GDP rises again. In this way, the volume of transactions is mistaken for the creation of wealth.

Such aggregates seduce policymakers into believing the economy can be managed as a single machine. Friedrich Hayek called this the *fatal conceit* – the belief that dispersed human action can be guided through statistical dials. To raise GDP is easy: borrow, spend, inflate, and count. But what such policies expand in figures, they often destroy in substance. Bridges decay, real wages stagnate, and the living fabric of society is consumed to sustain the illusion of growth.

Where progress once measured improvement in the quality of life and institutions, it now measures only quantity and velocity. It is only an illusion sustained by policy and finance.

Under these false measures, even decline appears as progress. Disasters, bailouts, and wars can all lift the totals. A nation that borrows and spends beyond its means looks more 'dynamic' than one that saves and repairs. The more financialized an economy becomes, the larger its reported growth – because it counts turnover and speculation as production itself.

Thus a tool once devised for administration has become a mask for deterioration. GDP cannot tell us whether we are advancing or merely accelerating toward exhaustion.

When everything becomes an investment

In our time, almost nothing escapes the grammar of finance. What began as the detachment of money from matter has become the detachment of value from virtue. The vocabulary of capital now governs nearly every sphere of life: art becomes an asset class, education a credential market, food a vehicle for branding, and even leisure a form of competitive display. The very word investment has swollen to include every pursuit that promises advantage, whether or not it produces anything of worth.

Private equity is the purest expression of this new creed. Its tools – leverage, optimization, and exit – belong to a world where time has been conquered and consequence deferred. Businesses once built to last are now built to sell. The craftsman's slow accumulation of goodwill is replaced by the manager's quick extraction of yield. When every enterprise must justify itself through "enhanced shareholder value," the distinction between stewardship and exploitation collapses. The result is not creation but conversion of substance into symbols, and of permanence into liquidity.

The same logic pervades the ordinary. Food, stripped of season and place, becomes a derivative of chemistry and logistics. Education, once a cultivation of understanding, becomes a debt-financed speculation on employability. The financialization of everything is not merely an economic development but a metaphysical one: it teaches us to see the world not as a trust to be tended but as a balance sheet to be managed.

Here lies the moral inversion of our age. Money, which was once the servant of purpose, has become its measure. The larger yacht, the faster airplane, the greater 'net worth' – these are not symbols of abundance but of dislocation. They mark the distance between possession and peace. The pursuit of more has displaced the question of what it is for. And when a civilization forgets to ask that question, it continues to advance in technique while it declines in wisdom.

An honest investment policy for such a time cannot be built upon forecasts or leverage, but upon conscience. The real measure of return is endurance: what remains when the fashion has passed, what serves when speculation ends. Capital that sustains meaning – institutions, skills, and relationships – outlasts all that merely inflates price. To invest rightly is to align money with purpose, to treat gain as the servant of continuity rather than the substitute for it.

If there is to be progress again, it will come when we understand that it is not the endless acceleration of change but the maintenance of meaning through time. It is not a line on a graph that ascends, but a circle that endures.

Only when money measures service, and success is judged by what is built and preserved rather than what is traded or displayed, will progress cease to be an illusion – and become, once more, an achievement of character.

Anthony Deden is Executive Chairman of a privately held investment holding company. This is an edited version of Anthony's article that was originally published on Forum Geopolitica and is reproduced with permission.

[i] Henry Grady Weaver. *The Mainspring of Human Progress*. Foundation for Economic Education, 1953.
[ii] Hans-Hermann Hoppe. *A Short History of Man: Progress and Decline*. Mises Institute, 2015.
[iii] Hans-Hermann Hoppe. *Democracy: The God That Failed: The Economics and Politics of Monarchy, Democracy, and Natural Order*. Transaction Publishers, 2001.
[iv] Murray N. Rothbard. *What Has Government Done to Our Money?* 4th ed., Mises Institute, 1990.
[v] Jörg Guido Hülsmann. *The Ethics of Money Production*. Ludwig von Mises Institute, 2008.
[vi]Elizabeth Dickinson. *GDP: A Brief History*. Foreign Policy, January 3, 2011.
[vii] Quoted in Mark Gertsen *Interest Rates, Roundaboutness, and Business Cycles: An Empirical Study*. Quarterly Journal of Austrian Economics, vol. 22, no. 3, Fall 2019, pp. 311–335.

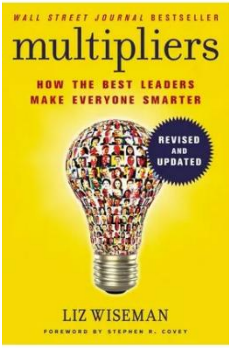
Our favourite summer reads

UniSuper

As most of us enjoy some time off, our team at UniSuper have once again compiled their book recommendations for the summer break. From leadership to investing and happiness and wellbeing, we hope you'll find something here that inspires fresh ideas and thinking over the holiday period. Please join the conversation and add your favourites below.

Andrew Gregory, Chief Advice Officer

Multipliers: How the Best Leaders Make Everyone Smarter **by Liz Wiseman**



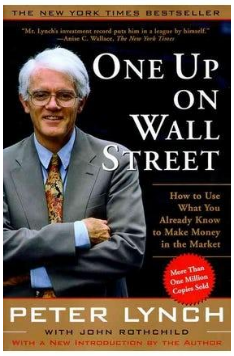
I picked this up expecting another leadership book and ended up thinking about my own habits more than I expected. Wiseman draws a sharp line between leaders who unintentionally shut people down and those who create the conditions for others to think harder, stretch further, and do their best work. The thing that stuck with me is how often "Diminishing" happens accidentally. Good intent, bad impact. And on the flip side, "Multipliers" aren't flashy; they just consistently bring curiosity, clarity, and trust into the room.

Her examples are practical enough that you can see yourself in them, which is equal parts helpful and uncomfortable. But it's a useful reminder that our job isn't to be the smartest person at the table. It's to build an environment where our teams feel capable, energised, and supported to do great work.

Key takeaway: Real leadership is less about having the answers and more about creating space for others to think and contribute at their best.

James Ewinger, Investments - Equities

One Up on Wall Street **by Peter Lynch**

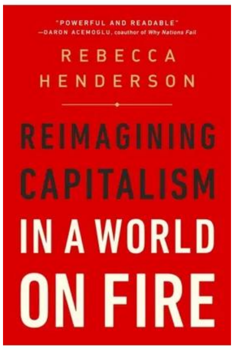


One Up on Wall Street is an engaging and practical guide for anyone keen on learning more about stock market investing. Peter Lynch breaks down complex investment concepts, encouraging readers to trust their own observations and invest in what they know. The book is packed with real-life examples and entertaining anecdotes making it an easy read.

Personally, I like how Lynch divides investments into several distinct groups—such as slow growers, stalwarts, fast growers, cyclicals, turnarounds, and asset plays—each with specific traits and suggested approaches. His timeless advice—like "invest in what you know" and focus on company fundamentals enables a deeper, more practical understanding of stock investing.

Jodie Barns, Investments - ESG

Reimagining Capitalism in a World on Fire **by Rebecca M. Henderson**



Generally, my reading choices are a lot like my travel destinations — I gravitate to places and stories that make me think differently about the world, teach me something new, and deliver a bit of culture shock along the way. And while I wouldn't ordinarily reach for a finance-related book in summer, given my role in ESG and investments, it feels right to lean into the trend rather than escape from it.

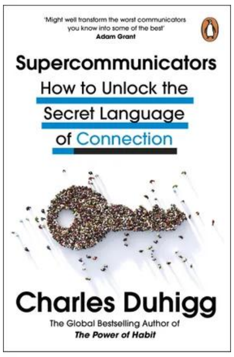
Reimagining Capitalism in a World on Fire is the perfect bridge: a book that stretches your thinking without feeling like work. Rebecca Henderson takes the familiar terrain of markets and capitalism and reframes it entirely, showing how our economic system is colliding with climate risk, inequality, and institutional pressure — and what it will take to rebuild it for a more sustainable future.

What makes it a standout summer read is its tone: practical, hopeful, grounded in real-world examples, and surprisingly energising. It's the kind of book that resets your perspective, sharpens how you think about your work, and leaves you seeing opportunities where others see roadblocks.

If you want something that expands your world view while still being engaging enough for long afternoons, this one earns a spot on the list.

Renae Anderson, Member Education and Advice

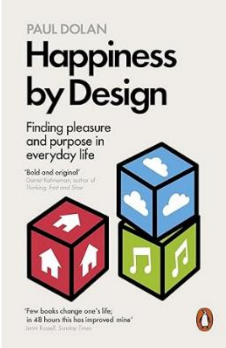
Supercommunicators **by Charles Duhigg**



Charles Duhigg's book, *Supercommunicators*, explores what makes some conversations transformative while others fall flat. Drawing on psychology and neuroscience, Duhigg argues that effective communication begins with recognising the type of conversation we're in, whether its practical (what's the problem), emotional (how do we feel), or social (who are we to each other). He offers tools for asking better questions, listening for underlying needs, and aligning our responses to the real issue beneath the surface.

For financial advisers, his framework is especially relevant: it helps us move beyond numbers to understand clients' values, fears, and aspirations, and to navigate difficult discussions with more empathy and clarity. The book provides a research-backed playbook for building trust, resolving conflict, and creating more honest, productive dialogue in both professional and personal settings. One key learning was about the 36 questions created by Arthur Aron. How might these questions help you prepare your clients for their best retirement?

Benedict Davies, Public Policy



Happiness by Design: Finding Pleasure and Purpose in Everyday Life **by Paul Dolan**

Paul Dolan is a Professor of Behavioural Science at the London School of Economics, known for his extensive work in health economics, wellbeing and happiness research, including collaborations with Daniel Kahneman.

In *Happiness by Design*, Dolan distils years of research into his pleasure and purpose principle: that happiness depends on how we allocate our attention between experiences that bring pleasure and those that bring purpose. His central argument is that what matters is what we pay attention to, so we should redesign our environments, habits and routines so that our attention naturally falls on activities that reliably provide either enjoyable feelings or meaningful engagement—or ideally a balance of both.

I'm particularly interested in this research because the objective of superannuation—striving for a dignified retirement—rests on strong wellbeing concepts. Dolan's book can be read alongside the financial wellbeing literature, which itself relies on conceptions of financial security and wellbeing that, arguably, create the conditions for attention to shift towards activities that bring pleasure and purpose in everyday life.

Happy New Year, and we look forward to sharing more insights over the coming months.