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Editorial

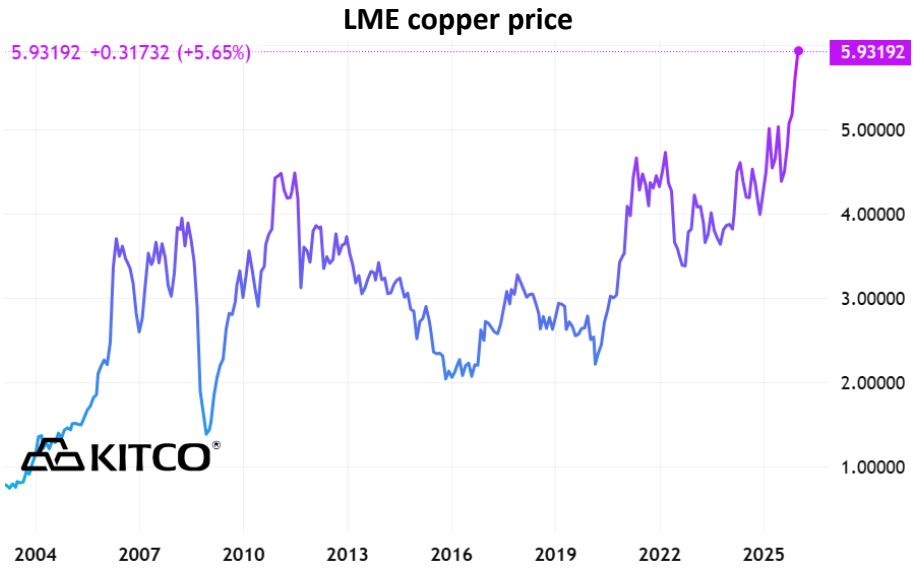
Who knew copper could be sexy? It is for Australia's mining giants which are falling over themselves to get more exposure to the metal.

Recently, Rio Tinto proposed a $300 million merger with Glencore to create the world's largest miner. It's essentially a takeover and through it, Rio wants to increase earnings from copper and the AI data centre theme while reducing its reliance on iron ore and aluminium.

Strangely, it comes a month after new Rio chief executive Simon Trott told shareholders of his "stronger, sharper and simpler" strategy for the company. Simpler, meaning a mega merger?

The Rio news follows BHP ending its more than year-long quest to buy Anglo American and its prized copper assets.

There are lots of questions from these proposed mega deals, with a central one being: why are the mining behemoths falling over themselves to get more copper, especially after the metal's price has already trebled this decade?



We've seen this movie before

Long time investors have been here before. In the 2000s, the rise of China was the big theme. Its infrastructure and property build-out catapulted demand for commodities. And supply couldn't keep up.

As commodity prices skyrocketed, mining giants went on a spending spree. In 2011, BHP paid US$20 billion for US shale assets. In the same year, Rio Tinto bought Riversdale Mining in a $3.7 billion deal to get access to its Mozambique coal assets. There were many other deals like it at the time.

The problem? Commodity prices soon went south as supply exceeded demand.

Annual global mine production increased 20% annually between 2000 and 2011 in US dollar terms, with more than half of that growth coming from coal and iron ore. Iron ore production doubled over the period in volume terms. And, mining capital expenditure rose more than 5x during that time.

Meanwhile, demand cooled as the Chinese economy slowed. You may remember talk of China's 'ghost cities' then, as whole cities popped up with millions of apartments and no one to occupy them.

Almost all the mega deals from 2010 to 2012 turned out to be duds. They resulted in billions of dollars in impairments for the companies and pain for their shareholders. For instance, Rio wrote down the value of Riversdale by 80% within a year of its purchase.

Interestingly, the one deal of the time that turned out ok was Glencore's US$62 billion merger with Xstrata, thanks to the canny operators at Glencore.

Post boom, investors shunned miners for the best part of a decade, scared off by what the companies did with shareholder money.

Lately, that sentiment has sharply turned.

The way mining cycles work

Why do mining companies go on acquisition sprees when research shows that most merger and acquisition deals (M&A) fail? And why do they do many of these deals at, or near, the peak of commodity cycles?

One of the best frameworks for understanding boom-bust cycles is the capital cycle concept developed by highly successful UK investment firm, Marathon Asset Management, as outlined in two books, Capital Account and Capital Returns, by Edward Chancellor.

Put simply, the capital cycle theory suggests that high profitability and returns on capital in an industry will attract a wave of fresh investment from new and existing participants. Eventually, this results in excess capacity, weaker pricing and profits, and falling returns on capital.

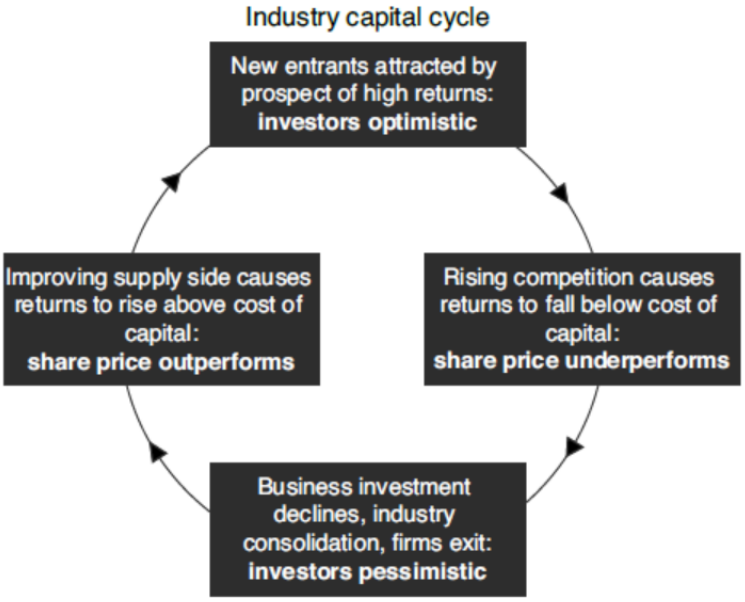


Chart I.1 The capital cycle

Source: Marathon.

Conversely, an industry that has low returns on capital will see declining investment, and eventually capacity will shrink through businesses cutting back and leaving the industry.

That sets the stage for a period of higher profits and returns on capital for the companies that remain, and so the cycle can start anew.

Marathon has used the capital cycle framework to identify industries that look toppy – and as it successfully did with the telecoms boom of the 1990s – and industries which may be closer to a bottom (harder to do).

Look closely enough and you can see how the capital cycle played out in the last commodities boom and how it's unfolding in the current one.

Where are we in this boom?

The capital cycle is a guide, without being precise. What can be said is that supply is still trailing demand for many commodities today. Despite gold prices hitting record highs, there's been little growth in mining production. Copper supply is rising but lags booming demand from AI data centres. Aluminium prices may be reaching new highs, but a supply response hasn't happened yet.

The only outlier is oil. The oil industry is gushing with supply despite depressed prices. Slowing demand as the world goes greener hasn't helped its cause.

The recently proposed deals from Rio and BP are likely indicative of commodities being in the mid-cycle of a boom rather than at the end of one. Until the supply of commodities ramps up, and there is a wave of large mining deals, then we're probably a while away from the boom turning to bust.

What should investors do?

How can investors ride the commodities boom without being burnt by companies doing bad deals? There are four main options:

1. Be choosy about which mining stocks you buy – and hope they don't make silly deals.
2. Invest in an ETF of mining producers - though an eventual bust is likely to impact the whole sector.
3. Royalty companies are an interesting and compelling way to play commodities as they benefit more from higher volumes rather than prices and aren't as capital intensive as the miners.
4. Invest in physical commodities rather than producers. This way, you'll be purely exposed to commodity prices rather than commodity companies.

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In my article this week, I explore how to build a simple ETF portfolio for the long term in a world where many assets look frothy.

James Gruber

Also in this week's edition...

David Snyder has gained fame lately after being outed as an adviser to a leading journalist at the Wall Street Journal, who outlined some of Snyder's market views in an article. David kindly agreed to us republishing a recent piece of his to clients which offers fascinating data and insights into where the US markets have been, where they are now, and why a secular bull market may be coming to an end.

Australia has a housing shortage, right? Not according to **Michael Matusik**, who believes that we have a housing misallocation issue rather than a shortfall. Why? Because there are 13 million spare bedrooms which could be put to use, and Michael explains some simple steps to make this happen.

It's a common investor dilemma - should you invest all your money into the market right away or stage your entry? Using 50 years of Australian data, Ophir's **Andrew Mitchell** reveals when staging your entry can protect you, and when it drags on returns.

Fidelity International's **Niamh Brodie-Machura** thinks the AI-led surge in markets will continue, but monetisation is yet to be proven and there are growing risks. She says diversification is key and a rotation out of the US will support income plays.

The US now links energy dominance directly to national security, industrial competitiveness, and technological leadership, warning that unreliable or expensive power threatens both prosperity and global influence. **Tony Dillon** says Europe's recent energy crisis shows the cost of prioritising ideology over abundance, and Australia may be next if it ignores the lessons.

Venezuela - many of you may be like us and know little about the country other than Maduro was a dictator and it has oil. Well-known investment author **Roger Lowenstein** runs through his time working and living in Venezuela, and the surprisingly strong democratic roots of the nation. He's worried by what Trump's recent intervention may bring.

Lastly, in this week's whitepaper, **Yarra Capital** gives its outlook for credit in 2026.

Curated by James Gruber and Leisa Bell

Building a lazy ETF portfolio in 2026

James Gruber

In 2023, I wrote an article that proved popular – 'The challenges of building a lazy portfolio'. It was about how I had spare cash at the time and wanted to create a simple, long-term portfolio with exchange-traded funds (ETFs). The aim was to capture the performance of markets at low cost via such funds.

What I thought would be an easy task turned complicated and the article addressed the many issues I considered before finalising my portfolio. In the end, I opted for a three-ETF portfolio – 80% in equities with half in a US stock market ETF and the other half in a World ex-US ETF, and 20% in bonds via an Australian government bond ETF.

A lot has changed since I wrote that article. US stocks have skyrocketed, Australian shares have badly lagged, investors have lost faith in bonds after five years of poor performance, precious metals have become a trendy asset to own, and private assets have grabbed an increasing share of institutional and retail wallets.

It just so happens that I again have spare cash on hand and am considering how best to deploy it into a simple ETF portfolio for the long term. And I've tweaked my thoughts on the topic since last time around, which I'll run through today.

The allocation to stocks in a lazy portfolio

The idea of a lazy portfolio is to keep it as simple and passive as possible. To keep biases and preferences to a minimum to benefit from the rise in markets over the long term. That's easier said than done.

With the stock part of a portfolio, the simplest way to gain exposure to global markets is through investing in a global market ETF like the Vanguard MSCI Index International Shares ETF (ASX: VGS) or Betashares Global Shares ETF (ASX: BGBL).

So, is it best to invest in this ETF or a similar one and be done with the stock allocation part of the portfolio? I'd suggest not.

The reason is that if you look under the hood of VGS or BGBL, 73-74% of the portfolio is in US shares. That means by buying these ETFs, you're essentially buying America.

That makes me nervous on few levels.

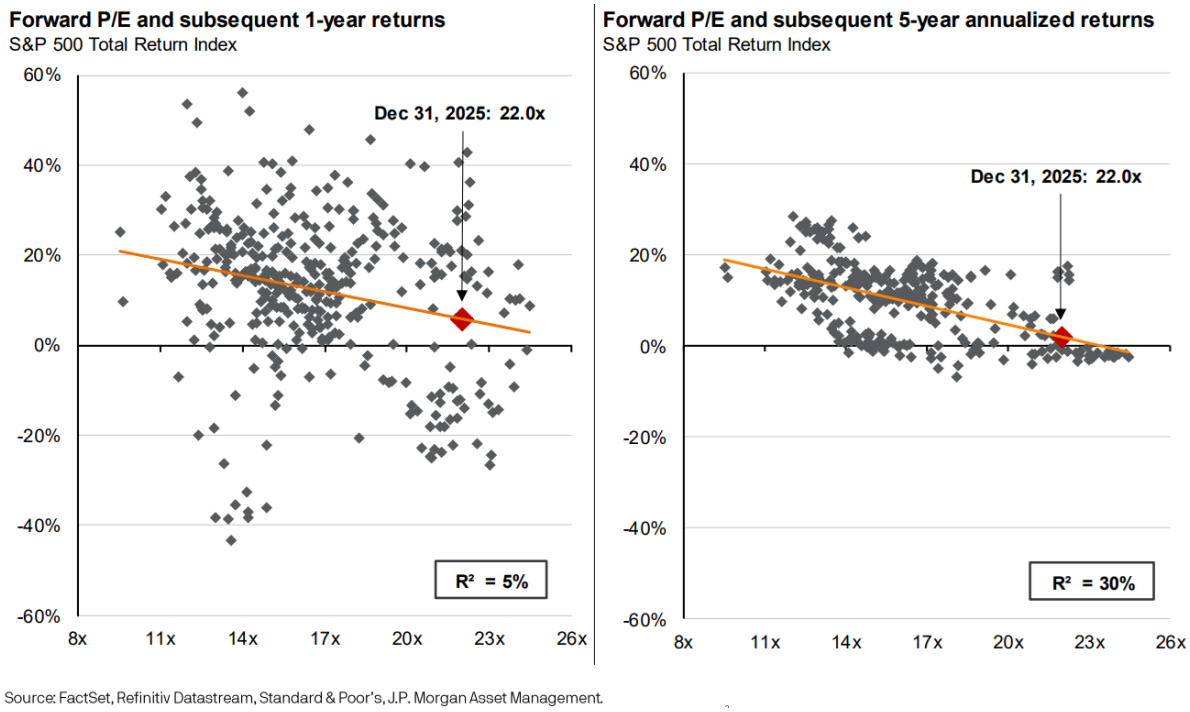
First, the US itself has become reliant on a handful of stocks. The top 10 stocks represent more than 35% of the index, far higher than even at the heights of the dot.com bubble.

Much of the concentration is in tech companies. Officially, the tech sector is 26% of the S&P 500 index. But that's deceptive because the likes of Tesla and Amazon are classified as consumer discretionary stocks and Meta and Alphabet as communications services companies. The real weighting of the S&P 500 to technology is closer to 45% when these stocks are included.

This means that if you're buying VGS or BGBL, not only are you taking a concentrated bet on America, but you're also taking a concentrated bet on the handful of stocks which are driving US markets.

Second, US markets are expensive on every valuation metric. Whenever the US has been at current valuations, returns have been poor over the next decade on every single occasion in the past ie. flat to low single digit per annum returns.

Source: Factset, Standard & Poor's, J.P. Morgan Asset Management.



Source: FactSet, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.

These are worrying statistics if you're trying to design a lazy portfolio for the next 10 or so years like I am.

Third, the US has had an almost 17 year bull market and bull markets in America have averaged 18 years through history. So, we may not be far from the end of this one.

These factors make me uncomfortable buying a global stock ETF for the stock portion of my portfolio.

Granted, I had similar concerns when doing this exercise in late 2023. Those concerns have only grown though.

What can we do with stocks for our portfolio, then? In my original article, I decided on a 50:50 allocation between a US stock ETF (main options include ASX: VTS and ASX: IVV) and a World ex-US ETF (main options are ASX: VEU, ASX: EXUS, ASX: ACWZ). I'm now inclined to bring the US stock portion down and the international portion up, to make it a 40:60 split. That is, invest 40% of my lazy portfolio in US stocks and 60% in international ex-US stocks.

There's no science to this breakdown and one possible issue is that I am using my judgement, and potentially my biases, to make this decision. In other words, I'm going from investing passively to investing actively.

I get the issue though I don't think there's a way around it. You either invest in an international stock ETF and make a big bet on America (which is an 'active' decision), or you can diversify your stock holdings as I suggest (which is also an active decision).

What about Australian stocks?

Why haven't I included an Australia-specific allocation in the portfolio? Two reasons. First, Australia is about 4% of global ex-US stock ETFs so I can already get exposure there. Second, my preference is to go global with stock exposure rather than overweight my home country.

I know some of you may prefer more Australian exposure to access franking credits and regular income. That's fair enough though an income-focused portfolio is different to the one that I'm trying to create here.

The allocation to bonds in a lazy portfolio

What about the bond portion of the portfolio? Last time, I opted for a plain vanilla Australian government bond ETF and I don't see a good reason to change this option.

The idea for bonds in a portfolio is for them to function as a buffer to smooth out volatility over time. Put simply, when stocks have a large dip, as they invariably do at times, bonds can help to mitigate the fall in equities.

A government bond ETF like Vanguard's Australian Government Bond ETF (ASX: VGB) is my preference. VGB offers triple-A rated securities, with a yield to maturity of 4.35%. It remains a solid offering.

What about corporate bonds? High-yield bonds? Floating-rate bonds? These are possibilities but you need to know what you're doing. And while all of them offer more yield than government bonds, they also entail more risk. That's a trade-off that I'm unwilling to take with the bond portion of my portfolio.

How about international bonds? Most of the research I've seen suggests that the risk-reward of investing in international government bonds versus Australian ones isn't worth it. That's especially when currency risk with international bonds is taken into account, or alternatively, the associated costs to hedge that risk.

The stock-bond split

In 2023, I went with an 80:20 stock-bond split for the portfolio. This may seem aggressive, though it reflects the long-term, hands-off intentions for the portfolio.

The split between stocks and bonds really depends on you and your circumstances. If you're conservative and get anxious during market downturns, a higher bond portion may make sense. If you're retiring or retired, larger bond exposure may also work better. If you're young and have a high risk tolerance, more stocks may suit.

What about commodities?

Commodities are back in vogue as gold and silver hit new highs, and copper climbs on bullish data centre demand. Investment legend Ray Dalio is a big advocate of including commodities in a portfolio. For instance, his famed all-weather portfolio suggests a 7.5% allocation to commodities and a further 7.5% allocation to gold. He believes gold and commodities can protect portfolios during periods of high inflation, when stocks and bonds typically underperform.

Though Dalio's idea has merit, I'm not convinced by his case. Gold has a mixed record during times of rising inflation. And though its returns have been inversely correlated to stocks (gold goes up when stocks go down) through much of the past 100 years, that hasn't been the case lately with both reaching record highs.

Also, stocks typically hold up ok during inflationary periods. Certain types of stocks can do very well during inflation ie. for example, value stocks in the US outperformed commodities, including gold, during the 1970s.

For these reasons, I've opted to leave commodities out of my simple ETF portfolio.

What about adding more elements to the portfolio?

There are an infinite number of ways to build a portfolio. For stocks, there is the option of splitting the US and non-US exposure into further parts. For the US portion, you could put 50% in an S&P 500 ETF, and the rest split between value, quality, and small cap stocks. After all, research shows that value, quality, and small stocks have beaten the index over long periods. You could attempt similar splits with your international exposure.

There are two main disadvantages to doing this. First, it makes the portfolio more complex. Second, it can open the door to the portfolio reflecting more of your in-built biases. That can defeat the main objective of a lazy portfolio, which is to capture the performance of the overall market rather than second guess the future direction of markets.

What about hedging?

Can hedging international exposure help a portfolio? All the research says that while hedging can impact returns in the short term, it makes little difference in the long term. Additionally, there are increased costs associated with hedging.

Consequently, I've chosen not to hedge in my lazy portfolio.

Why not one ETF instead of three?

In sum, this time around I've chosen to go with a 3-ETF portfolio again, but with a slightly different mix: 80% in shares - 40% of that in a US total market ETF and 60% in an international ex-US ETF – and 20% in bonds via an Australian government bond ETF.

One question I got last time was whether it was simpler to invest in a ready made portfolio ETF like Vanguard Diversified High Growth Index ETF (ASX: VDHG). VDHG has 90% in stocks and 10% in bonds.

My advice would be to double check the fees and costs involved. For instance, VDHG has a management fee of 0.27% per annum. That compares to a potential three-ETF portfolio comprising VTS (US shares with a management fee of 0.03%), VEU (All World ex-US stocks with 0.04% management fee), and VGB (Australian government bonds with a management fee of 0.16%).

Disclosure: ETF providers Vanguard and VanEck are Firstlinks sponsors.

James Gruber is Editor at Firstlinks.

21 reasons we're nearing the end of a secular bull market

David R. Snyder

Editor's note: the following is a perspective on US markets.

All valuation measures (price/cash flows, price/book, etc.) on the S&P 500 are at all-time highs except for P/Es but we are at 2.5 standard deviations on P/E. Even median valuations are near all-time highs at a P/E of 19. The equal weight indices are lower than the median stock valuations because of more individual equity outliers on the low end. But even the equal-weighted S&P 500 index is near its all-time

valuation highs at a 17 P/E. The equity risk premium is negative, which has only occurred in the 1998-2000 period and right before the 1987 crash. On normalized earnings the 12-month forward P/E is about 25 vs. 30 in March of 2000 as we now have above-trend earnings.

The highest growth in the economy is coming from the Mag 7 which makes up 37% of the S&P 500. That means the rest of the economy must be growing slower than in the past as there is only a finite amount of growth in the economy (earnings growth is correlated with GDP growth over the long term and GDP growth is lower now and will be even more so in the future than the last century due to demographics and less immigration). You can't have it both ways. The biggest cap stocks have much higher growth than in the past. So, the argument that the other 493 are relatively cheap is flawed. How are the other 493 cheap historically if they are growing a lot slower than they have in the past.

Many investors believe the Mag 7 are going to slow down their growth and the other 493 are going to pick up their growth. Even if that happens the S&P 500 overall is going to decline because the Mag 7 dominate the index. Also the overall index would still be way overvalued as the median stock is near all-time highs at a 19 P/E. Nobody has discussed these issues, and I have not heard a good response from any of my peers. But it is so basic!

Some investors argue that P/Es were higher in the late 1990s when both short and long interest rates were higher, giving the current stock market more room to run. However, the core PCE inflation rate averaged 1.5% from 1997-2000, compared to the much higher core PCE inflation rates of the last few years. Also, expecting another 3 standard deviation event is not a good investment strategy as it happens only 0.3% of the time.

The P/E of the S&P 500 advanced from 9 in 2009 to 22 in 2022 (coincides with calendar years!) So one multiple point per year which of course wasn't linear. But that is how secular bull markets work. In 2012 we were at an 11 or 12 P/E and profit margins and P/EBIT were at all-time highs. The sovereign debt crisis was solved, US banks were securely capitalized, corporate earnings had been growing rapidly since 2009, and interest rates were low. Job growth was 1.8 million (recovering 42% of jobs lost during the Great Recession) and GDP growth was 2.3%. There was a long runway ahead to get back to full employment. No way anyone could justify an 11 or 12 multiple then vs. 23 today. S&P 500 EBIT margins are only slightly higher today than in 2012. That is how secular bull markets work. P/E ratios expand slowly over a 15-to-20-year time period. Can you imagine if someone in 2012 said that the P/E should be 23 or if someone said today's P/E should be 11 or 12. They would be the laughingstock of the investment community. But they would be rational arguments. Status quo is so powerful.

If the S&P 500 today had the same P/E as in March of 2009, the S&P 500 would be 2772 instead of 6800. All of the increase above 2772 is just subjective valuation by investors. But subjective valuation has a very wide historical spread and we are at the very high end of that spread.

Valuations don't correlate with short-term returns but correlate very highly with 10-year returns. A valuation model I use that has been made better by Cypress Capital shows the highest correlation with future 10-year returns. Since 1970, the average error for 10-year annual returns has been around 2 to 3%. Thus, if the model forecasts 5% annualized returns for next 10 years, the actual results with high probability would likely be between 3.5% and 6.5%. It has only been inaccurate during bubbles (the late 1990s and of course the last couple of years). It has predicted 0% 10-year returns only three times, and that was in 2000, January 2022 and again now.

Housing bubble

The housing bubble is significantly understated. From December 2019 to July 2022 average housing prices increased 43% or 29% after inflation using a housing price model that combines median and average like for like property sales from Zillow, Redfin, HUD, FHFA and Case-Shiller and National Association of Realtors. Housing prices compound annual rate of appreciation for 2.5 years was 15.1% or an 11% real annual compound rate. Nothing in the early 2000s housing bubble came close to these annual compound rates for the same time period. From July 2022 to August 2025 my model shows housing prices rose 7% while the CPI increased 9%, thus increasing at a rate below inflation. HUD data shows housing prices actually dropped during this time frame by 7%, and in real terms declined over 15%. But HUD data tracks lower income housing buyers. Overall, from December 2019 through August 2025 housing prices increased 51% with real annual compound appreciation of 4.6%. To put it in perspective from December 1999 to December 2005 housing prices increased 43% with a real compound annual returns of 5.9%. Last century housing prices rose on average about 1% per year above the inflation rate, thus the 4.6% real annual returns of the last six years are well above historical appreciation. Still significantly overpriced.

The big difference between the current housing bubble and the bubble in the early 2000s is the lack of leverage today. Bubbles can burst in different ways. There can be a sudden burst as in the 2007-08 period or just a slow deflating of the bubble over many years. When housing prices became overheated in the late 1980s they proceeded to increase at a 2.2% annual compound rate from December 1989 to December 1997 vs. a 3% CPI annual compound rate. Eight years of negative real annual returns in housing prices allowed housing prices to revert to their mean in real terms. That is what has been happening for the last three years.

Secular bull and bear markets

This secular bull market which began in March 2009, is now 16 years and 9 months long. The last two secular bull markets lasted 17 years and 7 months (August 1982-March 2000) and 16 years and 7 months (June 1949-January 1966). There has been a consistent pattern of alternating secular bull and bear markets since 1815 with most lasting between 15 and 20 years. The secular bull markets usually have average real compound annual returns of 12 to 16% vs. the long-term average of 6.5%. The current secular bull market which began in March of 2009 has so far produced real compound annual returns of 13.7% vs 15.1% from 1949-66 and 15.5% from 1982-2000.

Secular bear markets have also mostly lasted between 15 and 20 years and have produced flat or slightly negative real compound annual returns. The lowest real annual compound returns were negative 7.6%, from March of 2000 to March of 2009. Although these were the worst bear market real returns, the bear market only lasted 9 years.

My thesis has always been that the current secular bull market would not be quite as strong as in the past as we only experienced a 9-year bear market (despite the more negative annual returns) but it has been almost as strong. Interesting that the short 8-year secular bull market from 1921-29 produced almost double the real annual compound returns of other secular bull markets at 28%, almost making up for the shorter time period.

There also have been very consistent major 25-to-33-year cycles where the stock market makes a major decades low in valuation and negative returns. These occurred in 1861, 1896, 1921, 1949, 1982 and

2009. That would mean the next major secular low is scheduled to occur between 2034 and 2041. That is relevant today because it takes many years for the low to develop with the top usually occurring at least a decade before the secular bottom. Expect the S&P 500 P/E to fall below 10 sometime during that time period wiping out at least a whole decade of earnings.

All of these secular market patterns point to a likely end to the current secular bull market within the next two to three years and more likely sooner, with this year being my best estimate.

Timing of AI bubble bursting

The timing and circumstances are almost too perfect for the AI bubble to burst within the next couple of years to end the current secular bull market. It seems too easy to call. Almost every CEO of the major hyperscalers have publicly stated that we are in an AI bubble but that they have to continue to invest or else risk being left behind in the race. There are myriad events that could go wrong in the next year or two to burst this bubble.

First, we are in a race with China for AI dominance and China has at least 20 times more effective training runs per dollar than the US. China's $42 billion private investment in 2025 delivers the equivalent real world training output of $1-1.4 trillion in US terms. At some point in the future are American hyperscalers going to realize similar efficiencies or will more world capital flow to Chines AI to get higher returns for each dollar spent.

Second, there is still no proof that AI companies are going to deliver a reasonable return on capital for all the money invested so far, at least in the next couple of years, which may lower demand for AI.

Third, even if demand for data centers continues to grow, will there be enough energy supplied to the data centers? Orders for nuclear and natural gas turbines are back ordered for the next 5 to 10 years and Trump is discouraging investment in renewable energy that could come online faster. Also, they need local community permits for these energy facilities and there is increasing NIMBY resistance, especially as the enormous demand for water to cool the data enters could deplete the local water supplies. And the latest research reveals higher cancer rates in communities surrounding the data centers.

Fourth, nefarious uses of AI could cause stricter regulation. Fifth, the bonus depreciation could actually backfire as it encourages even more AI investment that wouldn't generate a high enough return on investment without the tax incentive, adding to the bubble.

Nividia (NYSE: NVDA) only trades at a 25 P/E on 12 month forward earnings estimates, with many investors believing it is very cheap vs. its growth rate and its historical P/E. But for all of its strengths, NVDA is still a cyclical company, and the stock market is saying that NVDA's earnings are going to decline significantly sometime in the not-too-distant future. Cyclical companies trade at their lowest P/Es near the top of earnings cycles and their highest P/Es near the bottom of cycles. NVDA also has major concentration risk with the hyperscalers and potentially increasing competition. The stock market also does not like the circular agreements it has made with its customers, a real red flag and similar to the circular agreements back in the late 1990s. Memory chip prices are advancing this year at the highest rate since 1999, another eerie resemblance to 1999. The stock market could be wrong, but I wouldn't bet against it.

Boxes checked for near end of secular bull market

Just about all of the boxes have been checked that an investor would look for to determine that the end of a secular bull market is near.

1. Near record bullish investor positioning.
2. Near record low junk bond spreads.
3. Market concentration at extreme highs.
4. Extreme valuations by all metrics.
5. Bubbles in multiple assets (gold, housing, high yield spreads, equities, crypto).
6. Unemployment near historic lows for a sustained period.
7. High leverage.
8. Speculative fever.
9. Long period of time without a down credit cycle
10. Outperformance of large cap growth stocks, especially technology.
11. Poor market breadth.
12. A new revolutionary technology that captures investors' enthusiasm for at least a few years.
13. Overinvestment in the near term of the new technology.
14. Low to mid-teens annualized real total returns for the S&P 500 over a 15-to-20-year period, preferably 16 to 18 years.
15. Leading economic indicators declining.
16. Negative output gap.
17. Divergence of free cash flow from earnings (hyperscalers).
18. Circular agreements by the leading tech companies.
19. High labor participation rates especially prime age (18 to 55).
20. Investor margin debt increasing year over year, more than 500 basis points more than year over year gains in the S&P 500.
21. Historical high retail trading volume.

Now it is just a timing issue. The leverage is in government debt and in the median debt to EBIDTA of public companies (although interest coverage is still high) as well as the coming build-up of debt and negative cash flow of the hyperscalers. Market breadth as measured by the cumulative advance/decline line for all exchanges has not been good over the last couple of months despite the appearance of the broadening of the stock market. Overall, it has not been great since the 2022 low, but we need much worse breadth to start a secular bear market. The IPO market, which is one box that has not been checked, has not been especially exuberant. However, as explained earlier, we already had our once-in-a-generation speculative IPO market in 2020-21 and will likely not see another one of that magnitude in the near future. Another important box that has not been checked yet is rising interest rates/FED restrictive policy, although the Fed has been somewhat restrictive over the last couple of years.

David R. Snyder, CFA, is Managing Principal/Chief Investment Officer at Journey 1 Advisors, a registered investment advisor based in Pennsylvania. ***Disclosure:*** *The opinions merely represent the opinion of the author as CIO of Journey 1 Advisors, LLC and intended to inform the readers about our investment philosophy and strategy. It is not intended to offer investment advice.*

13 million spare bedrooms: Rethinking Australia's housing shortfall

Michael Matusik

When we talk about Australia's housing crisis, the focus tends to fall on two things: supply versus demand. This article looks at one aspect of supply which is often (well frankly almost always) overlooked – spare bedrooms.

Now the headlines cry "Build more homes," and yes - in many cases, that's the right answer.

But what if – just what if – we already had a massive, underutilised stockpile of housing hiding in plain sight? Not in paddocks, not in construction pipelines, but behind closed doors. But in homes already built. Bedrooms already plumbed, insulated, and sitting idle.

The latest estimates suggest Australia has over **13 million spare bedrooms** – across both occupied and unoccupied dwellings. It's the biggest untapped housing asset in the country - and it's been quietly ignored for decades.

Let's take a closer look.

The scale of the surplus

Let's start with the numbers. From the 2021 Census:

- There were 10.85 million private dwellings across Australia
- Of these, 1.04 million were completely unoccupied on Census night
- The remaining 9.81 million were occupied - and more than 75% of those had at least one spare bedroom

Using a conservative benchmark – that households only 'need' one bedroom for every two people (rounded up) – we estimate that between 9.8 and 11 million bedrooms in occupied homes are surplus to need.

Now let's add in the unoccupied homes. Here we have assumed that the unoccupied stock on average holds two bedrooms on average. Why? Because most unoccupied dwellings are apartments, holiday lets, or modest second dwellings – not suburban homes or even townhouses.

So: 1.04 million unoccupied dwellings × 2 bedrooms = 2.08 million spare bedrooms

That brings our revised national total to between 11.9 to 13.1 million 'spare' bedrooms across Australia.

Estimated spare bedrooms
Capitals and select major urban areas

Capitals		Other urban areas	
Sydney	2,144,600	Gold Coast	182,500
Melbourne	1,967,100	Sunshine Coast	135,500
Brisbane	1,027,600	Geelong	108,700
Perth	876,900	Wollongong	80,500
Adelaide	560,900	Townsville	75,300
Canberra	181,400	Newcastle	68,900
Hobart	100,400	Toowoomba	68,000
Darwin	59,500	Bendigo	49,000
ABS, 2021, Matusik estimates.		Ballarat	35,000

That's one empty bedroom for every two people in the country.

We don't have a housing shortage. We have a housing misallocation problem and one that's literally hiding behind closed doors.

How does this happen?

The short version is that we've built our housing around a vision of the nuclear family that no longer reflects how we live.

- **Older Australians** are staying put in large homes long after their children have moved out.
- **Young people** are priced out of renting anything beyond a share house, let alone buying.
- **Solo living** is rising, but zoning and planning rules still prefer traditional housing solutions.
- **Empty nesters** with 3 or 4 bedrooms often want to downsize – but can't find or afford anything nearby to move into.

And so, we end up with one part of the population rattling around in too much space - while others (too many) can't find a place to sleep.

Why aren't spare bedrooms being used?

It's not as simple as blaming homeowners. There are real barriers to putting those rooms to work:

- **Tax disincentives** – Rent out a room, and you might affect your pension, trigger CGT, or face complex ATO reporting.
- **Legal uncertainty** – Residential tenancy laws are geared toward full leases, not shared arrangements.
- **Safety/privacy concerns** – Homeowners are wary about inviting strangers into their personal space.
- **Insurance and liability issues** – Many home insurers don't cover shared arrangements without premium hikes.
- **No trusted platforms** – There's no national, vetted service to match up homeowners and renters safely.

So even where the will exists, the system says: "Too hard".

What's been tried — And what's worked?

Let's look at some real-world examples, here and abroad:

- **Bathurst, Orange & Parkes (NSW)**
  A 2022 pilot project mapped 'spare room capacity' in these regional centres. It found over 60,000 spare bedrooms - enough to house an entire workforce. But uptake was blocked by concerns about trust, risk, and the lack of enabling regulation.
- **Homeshare Programs (UK, Germany, Australia)**
  Homeshare initiatives pair older people with a spare room with younger people needing affordable accommodation. In exchange for cheap rent, the renter helps with tasks like shopping or gardening. These schemes have run successfully in the UK, Germany, and parts of Australia (e.g. Anglicare trials in Queensland), improving wellbeing and extending ageing-in-place.
- **The UK's Bedroom Tax (2013)**
  In a more hardline move, the UK cut housing benefit for social housing tenants with spare rooms.

While it did free up some properties, it also pushed vulnerable people into hardship – particularly where smaller homes weren't available. Lesson: penalties without options don't work.

- **Victoria's Short-Stay Levy (2024)**
  By slapping a 7.5% levy on Airbnb-style short-stay rentals, Victoria is hoping to shift some properties back to long-term use. It won't affect spare bedrooms directly, but it sends a signal: housing is for living in, not just profiting from.

Five things Australia could do and now

Unlocking just 5% of the country's underused bedrooms would yield over **650,000 new sleeping spaces**. That's more than all the new homes Australia is forecast (dreaming) to build in the next two years!

Here's how we do it:

1. **Tax incentives for micro-letting**
   Offer tax-free thresholds for renting a room – say, up to $10,000/year – and remove CGT triggers for part-use of the home.
2. **Create a 'micro-tenancy' legal category**
   We need a simple, low-risk legal structure – partway between a tenancy and a licence – to allow flexible, low-commitment rental agreements.
3. **Subsidise retrofit upgrades**
   Grants or low-interest loans to install locks, private entries, or minor conversions could turn awkward spare rooms into viable living quarters.
4. **Nationally backed matching platforms**
   Think 'Airtasker meets Airbnb meets Homeshare' – with government-vetted profiles, insurance coverage, and dispute mediation.
5. **Permit internal subdivisions without full rezoning**
   Allow larger homes to be split into dual-occupancy dwellings (internally), provided safety, fire, and access requirements are met – but without full subdivision or title separation.

The bigger picture

I am not saying stop building new homes – far from it. But I am saying: don't ignore the elephant in the spare room.

Housing is a system – and right now, it's running with gross inefficiencies. The mismatch between household sizes and dwelling sizes is one of the biggest – and easiest to fix – distortions in the market.

Every spare bedroom we unlock is a bed for someone instead of sleeping on a couch, in their car, or in a motel paid for by the state. This isn't just a housing issue – it's a productivity issue, a wellbeing issue, and a moral one.

End note

Australia doesn't just have a housing shortage. It has a housing distribution problem.

Our cities are full of three- and four-bedroom homes with one or two people inside. And our tax settings reward sitting on assets – not sharing them.

And my suggested solutions aren't radical. They're simple, human, and working elsewhere but we need to be creative and do something.

The housing crisis isn't just about what we haven't built. It's also about what we've built and aren't using.

Michael Matusik is an Australian housing market specialist, providing commissioned housing and demographic market reviews, updates and outlooks for over 30 years, and shares his thoughts in his blog, Matusik Missive.

Market entry – dip your toe or jump in all at once?

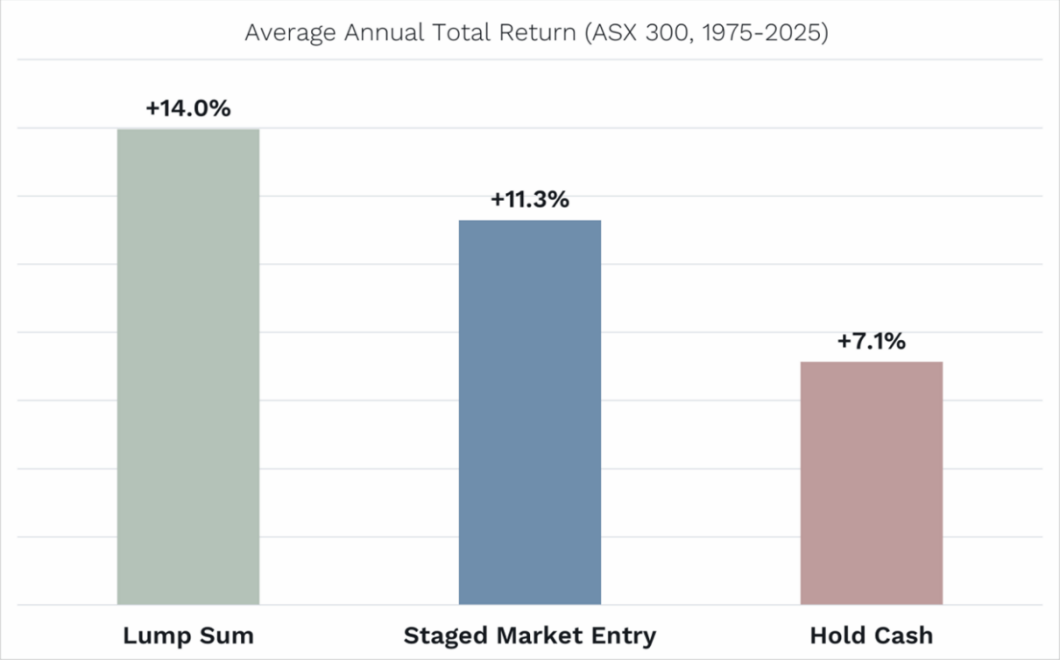
Andrew Mitchell

You've got a lump sum of cash, and you want to start investing in the stock market. You might consider ploughing it all in today. But then you worry: what if the share market then slumps?

Fortunately, there is a wealth of data available that can help investors make better-informed decisions.

Below, for the last 50 years of Australian share market data (ASX 300 index), you can see the average 12-month results for:

- 'Lump sum' investing (investing all at once).
- 'Staged market entry' (four equal investments at the start of each quarter over 12 months).



Source: Bloomberg. ASX 300 total return used for Lump Sum option. ASX 300 total return and Bloomberg Ausbond Bank Bill Index returns used for calculating Staged Market Entry return. Bloomberg Ausbond Bank Bill Index return used for Cash return.

On average, lump sum investing wins.

This makes sense because share markets tend to rise over a year. Delaying your investment through staged entry is, therefore, on average, going to hurt you.

And, of course, just sitting in cash earning interest has provided the worst result – though investors today would love to get a 7.1% return from their cash investment! [1]

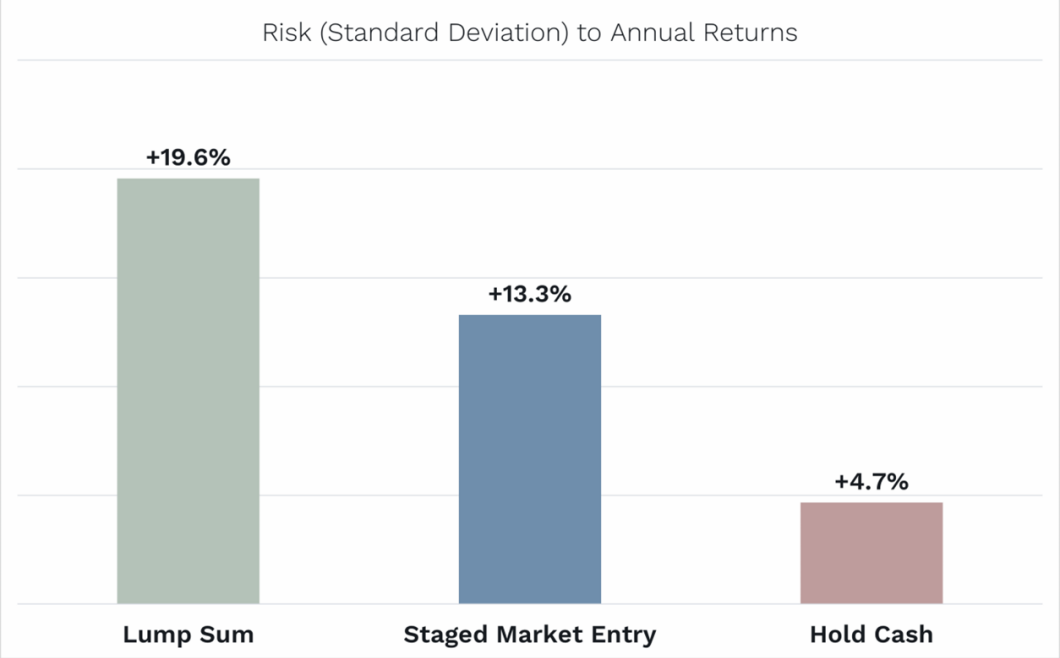
Lump sum risk

BUT, that is not the end of the story.

The world does not live in averages.

As famed investor Howard Marks said: "Never forget the six-foot-tall man who drowned crossing the river that was five feet deep on average".

If we look at the 'risk' to those average annual returns we saw above – or the spread of outcomes around those averages – we see that lump sum investing was the riskiest.



Source: Bloomberg. Data from 1975 to 2025.

You don't have to be a brainiac to understand why.

The share market return is more volatile than keeping all, or some, of your money earning interest from a cash investment. So going in all at once means you could do either a lot better than the 14% average … or a lot worse.

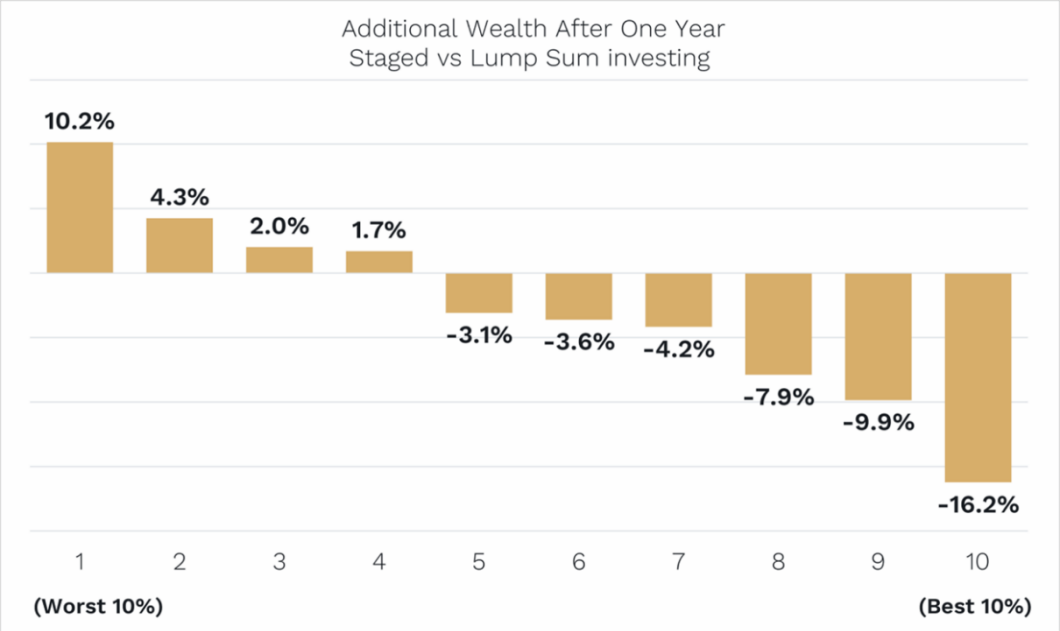
Naturally, by potentially staging their investment, it's the 'lot worse' outcome investors are thinking of protecting against.

Like an insurance policy

So next up is the really insightful data to help you make your decision.

We have chopped share market returns over a year up into 10 deciles – or in other words, 10 equal baskets from the worst 10% of annual share market returns to the best 10%.

We have then looked at how much more, on average, you'd be better off from staging market entry compared to lump sum investing.



Source: Bloomberg. Data from 1975 to 2025.

What you can see is that:

- Staging makes you better off if share market returns are in the lowest return four deciles, or the worst 40% of returns.
- However, more often, staging makes you worse off because it underperforms in the best six deciles or best 60% of returns.
- There is also a 'negative skew' to staging. That is, staging makes you worse off to a greater extent in the best returning share market environments than it makes you better off in the worst returning share markets (i.e. -16.2% versus +10.2%).

The best way to think of staging market entry is like an insurance policy on your house burning down. Most of the time, you won't need the policy, and it's costing you money.

However, if your house burns down, or in this case, if you have unfortunate market timing and the share market falls after you've just started investing, then staging will have saved you money.

Why not just be a better market timer and only invest in a lump sum when you know the share market is going to go up over the next 12 months?

Sadly, that's not possible.

Things like an expensive share market, or one that has gone up a lot over the past year, have virtually zero predictive power of what the share market is going to do over the next year.

And the longer you wait in cash for a 'perfect' share market opportunity, the likely longer you will have been sitting on the sidelines watching a rising share market go by.

A better-informed decision

So, as we see it, just like whether to purchase insurance for a house that might burn down, each individual needs to make up their own mind as to whether the insurance from staging your market entry – which will likely cost you money on average – is worth it for the peace of mind that it will have saved you money if share market returns turn out poor over the next year.

In our experience, for big, meaningful investments, many people choose to stage.

Ultimately, the choice is yours.

But hopefully, you are a little more informed now to make your decision.

[1] This seemingly high 7.1% average 12-month cash return is so high in large part due to the high interest rate/inflation years in the 1980s and early 1990s.

Andrew Mitchell is Founder, Director and Senior Portfolio Manager at Ophir Asset Management, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

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The US$21 trillion question: is AI an opportunity or excess?

Niamh Brodie-Machura

Top convictions

- **AI-led surge will continue**, but monetisation is yet to be proven and there are growing risks
- Need for diversification and rotation out of the US will support **income plays**
- Valuations point to **opportunities in Europe; Japan** is returning to growth**,** and a **broader bull market in China** may just be getting going

What is the answer to the US$21 trillion question?[1] That's the current dollar value of the US tech sector, although, in reality, the stakes may be higher. It is years since so much in the US stock market has rested on one central idea and AI is without doubt that: an all-pervasive trend that will shake the future and which cannot be ignored. It *demands* investment in more than one sense, and the powerful earnings growth trend it has spurred will continue into 2026. But we have been here before, and we know that revolutions rarely proceed smoothly.

The changes the new tech brings will be as dramatic as those of the internet in the 1990s, and in the US tech leaders we have companies with the ammunition necessary to deliver the scale of investment required.

"AI needs to be seen in the context of broader AI businesses," says one of our tech analysts Jonathan Tseng. "The correct question to be asking is not 'is AI in a bubble' it is 'are current hyperscaler businesses – including the ones generating hundreds of billions of dollars of cash and trading on a mid-20-times multiple – in a bubble?'"

In a time of major industrial and technological upheaval, investors sense the opportunity for outsized gains. These can be made from backing the first movers, the leaders of the new or revolutionised industry, as well as the companies that provide this generation's picks-and-shovels.

However, the high levels of uncertainty about how the future will actually pan out put a premium on pinpointing the real winners. Many ideas, projects, and companies get funded and valuations have been bid up broadly, and not every company will end up generating the earnings and cashflow to justify it.

Something gotta give

The overall mood of the analyst teams who I work with is positive, and market valuations reflect that. In early November, the S&P 500 was trading at just under 24 times forward price-to-earnings. Historically, we have found ourselves at these levels less than 5% of the time.

Tech and consumer discretionary stocks are more extreme; both trade in the low 30s multiple of earnings. Will that be justified by the reality of earnings in the quarters ahead? For tech, there are strong indications on the ground that the growth outlook is improving. When we asked our analysts this time last year whether they expected AI to improve profitability in 2025 only a quarter (26%) said yes. That figure has since doubled to almost half of the whole survey.

In stark contrast, many of our analysts point to weakness in the US consumer as a top concern over the next year and my feeling is that behind this are contradictions that will need to be resolved in the months ahead.

If AI is beginning to work as a business model for more companies – as our survey and the market valuations suggest – it will do so by delivering productivity gains. It is difficult to see that happening without some movement on corporate layoffs, of which there are already signs. More profits and more stock market gains are a positive story for the economy, but job cuts less so.

Secondly, consumer staples and discretionary may be only 21% of the S&P compared to 46% for tech and communications – but American consumers themselves account for nearly 70% of US GDP, so weakness here would have multiple effects. Will a combination of the capital gains from rising stock markets and the sheer scale of investment in tech be enough to fend off that weakness?

Prices, pressure points

For now, the answer on balance seems to be yes and we see real substance and optimism in the fundamentals underpinning the market. We expect the mid-to-high single digit earnings growth of 2025 to strengthen into double digits across all of the major regions we look at in 2026. That includes information technology (IT) sector profit growth of 25%.

There is, however, a need to diversify risk. Many of the investors I talk to are examining their geographical allocations in light of the political events of the past year. Any hiccups in the current generous growth expectations or from politics and policy would support actual moves in capital.

The case for Europe has strengthened considerably. Falling inflation, lower interest rates, and fiscal support all provide a supportive backdrop for corporate investment and consumer confidence. Aerospace and defence stocks are benefitting from the re-arm Europe trade. But European companies should not be seen as proxies for the region's economy. They are global businesses with resilient balance sheets and proven growth profiles.

China increasingly looks reminiscent of the US market in terms of the progress being made by its companies on technology and innovation – but here positioning is not crowded and valuations are low. Worries about the trade conflict with the US have cooled and it's clear that the government understands the importance of fiscal spending as a tool to reboot the market and the economy. Furthermore, the increased focus on ending blistering price wars can help corporate earnings inflect back to meaningful growth. The hints of a broader bull market are clear to see.

Japan stands out in our analyst survey as a source of optimism. The country is emerging from the staid years of low inflation and low interest rates. Wages are improving and consumer spending power is growing. Corporate governance reforms have fed the market too and helped spur a copycat process in Korea that is upending years of discount valuations and low dividend payments – see our Asia outlook for more.

In short, while there is much to be concerned about, the sources of strong returns for the next year are out there. There may just be more variation than we have seen in the last 12 months.

1: The total market capitalisation of the Mag 7 group of leading US tech companies, excluding Tesla Inc, was US$21.438 trillion on Nov. 17, 2025. These values vary with intraday market movements. Source: Refinitiv Workspace.

Niamh Brodie-Machura is Chief Investment Officer, Equities at Fidelity International, a sponsor of Firstlinks. The views are his own. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity International. This document is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au.

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US energy strategy holds lessons for Australia

Tony Dillon

Recently, I explored the link between energy policy and economic policy. Now I want to follow that up with the United States last month elevating the dimension of national security to energy policy in its National Security Statement of the USA. Specifically, it stated the following priority under the heading of economic security:

"Energy Dominance – Restoring American energy dominance (in oil, gas, coal, and nuclear) and restoring the necessary key energy components is a top strategic priority. Cheap and abundant energy will produce well-paying jobs in the United States, reduce costs for American consumers and businesses, fuel reindustrialization, and help maintain our advantage in cutting-edge technologies such as AI. Expanding our net energy exports will also deepen relationships with allies while curtailing the influence of

adversaries, protect our ability to defend our shores, and—when and where necessary—enables us to project power. We reject the disastrous "climate change" and "Net Zero" ideologies that have so greatly harmed Europe, threaten the United States, and subsidize our adversaries."

This is a significant statement, prioritising both national security and the economy. Let's unpack it.

1. *"Restoring the necessary key energy components is a top strategic priority".*
   This places energy as a strategic asset. It is vital to national security because energy dominance underpinned by low-cost, reliable, and abundant energy, promotes reindustrialisation and industrial competitiveness. It ensures control over energy, reducing dependence on foreign supply.
2. *"Cheap and abundant energy will fuel reindustrialization".*
   A recognition that without affordable and reliable baseload energy, technological and manufacturing dominance would not be possible. This is particularly applicable to AI data centres, heavy industry, and manufacturing, which intermittent energy sources cannot support.
3. *"Expanding our net energy exports will also deepen relationships with allies while curtailing the influence of adversaries".*
   This is geopolitical logic. Exports to Europe and Asia reduce the influence and leverage of adversaries.
4. *"We reject the disastrous "climate change" and "Net Zero" ideologies that have so greatly harmed Europe, threaten the United States, and subsidize our adversaries".*
   This implies that net zero policy is economically harmful due to higher energy costs, that it is strategically harmful because of a dependence on foreign critical minerals, and that it benefits adversaries who seek to take advantage over those who prioritise emissions reduction. Europe is beginning to recognise these concerns with its aggressive climate policies leaving it dependent on Russian gas, deindustrialising due to high energy costs, and being generally vulnerable to energy price shocks.

Expanding on the European experience and the lessons learned by the US, Europe experienced a major energy shock in 2021-22 when Russia cut gas supplies. It began in late 2021 with tight markets post-pandemic and heightened after Russia's invasion of Ukraine in February 2022. This saw natural gas prices increase by multiples, with electricity prices hitting levels far in excess of US and Asian competitors. Smelters and fertiliser plants either shut down or cut production, with some industries simply packing up and leaving to set up in countries with cheaper electricity.

Europe had become dependent on Russian gas because of policy choices it had made. Germany, for example, shut down nuclear plants assuming renewables and gas would replace them. In many instances, Europe put the climate policy cart before the energy transition horse.

This was a giant wake-up call for European policymakers, who have begun to acknowledge that climate policy ambition has outpaced energy capacity. In turn, the US has heeded the warnings and under Trump, embraced a revival of fossil fuel derived domestic energy, a revival of nuclear energy, framing energy as a cornerstone of national security.

And now, governments almost everywhere are coming around to the fact that cheap energy underpins strong economies. That energy abundance is required to keep manufacturing in the country, AI data centres are going to require enormous amounts of energy, and that climate targets should not ignore economic reality.

There are implications for Australia also, as it goes down the same path as Europe, but lagging in its experience. It is becoming exposed to the same risks of energy price inflation, with households, manufacturing, and heavy industry under significant pressure. Europe was first cab off the rank with over-zealous climate ambition and should be seen as the model to avoid.

In a recent CEO Survey 2026 by The Australian, a number of CEOs delivered a blunt assessment of the state of the energy transition here. Some comments include:

- *"The transition must also balance economic viability and energy security. For advanced manufacturing businesses like ours, predictability in energy pricing and supply is essential to support growth and global competitiveness".*
- *"Energy policy settings need to be anchored in reality rather than ideology and consider the real world challenges of the energy transition and the likely implications".*
- *"Rising energy costs are already affecting parts of our portfolio, and we factor this into long-term planning".*
- *"We cannot simply turn off the taps on oil and gas before replacement technologies are technically feasible, affordable and available".*
- *"Decarbonisation of our economy by deindustrialisation is a worst-case scenario which must be avoided at all costs to protect sovereign manufacturing in-country".*

And this is more than energy 'transition' we are talking about. It's about energy 'addition', because we are going to need vast amounts of new energy over the ensuing decades. Consider AI data centres alone.

These data centres contain industrial-scale specialised computer chips, banks of storage and memory, and cooling systems. They are extremely power intensive with a single AI training model run (learning from data) consuming as much electricity as thousands of households would use in a year. These models can run for weeks, carrying out trillions of computations per second. The power requirements are enormous, with continuous energy at maximum load essential. Intermittent energy without firm backing would be insufficient.

Aside from model learning, there are the energy requirements to actually run these models, with AI queries already running into the billions on a daily basis. Again, the energy demand is huge, with a modest AI data centre requiring the energy equivalent of that of a small town. According to the International Energy Agency, global AI-related electricity consumption is expected to triple in just the next few years.

All this explains why the US national security strategy links AI technology to affordable, reliable energy and national power. It really is a case of sort your energy systems out, or be left behind when it comes to employing AI at scale. The worst-case scenario for any nation is a deficiency in reliable and affordable electricity, forcing AI data centres to be built and run offshore, thereby creating sovereign risk. The alternative would be to forgo participation in the AI revolution altogether, which really isn't an alternative for any advanced economy.

Tony Dillon is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.

Venezuela's democratic roots are deeper than Trump knows

Roger Lowenstein

Most literate Americans know that Venezuela had a nasty dictator, Nicolas Maduro, whom the U.S. captured, and that it has a lot of oil and probably gangs and drugs. They may not know much more.

Ignorance helps to explain the relative apathy shown by Americans toward the savageness of the Maduro regime, which translates to apathy toward the 30 million Venezuelans who have suffered under him.

When I returned from a two-year hitch in Caracas at the end of the 1970s, a relative asked me how I had fared in "Argentina," whose capital is as close to Caracas as Washington, D.C. is to Kazakhstan.

Venezuela then – unlike Argentina – was a vibrant democracy. The people had acquired the presumption of electoral participation and the expectation of peaceful transition.

From 1958 (when a military regime collapsed) into the early 2000s, voters went to the polls every five years and often dislodged the ruling party.

During the 1978 presidential campaign, which I covered for the Caracas *Daily Journal*, an English-language newspaper, I saw raucous street rallies and energetic campaigning that mimicked the electoral enthusiasm of a somewhat earlier era in America. Public interest was intense, and the culture had absorbed many of our democratic norms.

Among educated Americans, it was a common supposition that Latin Americans resented the U.S., but as an American in Caracas I didn't experience that. Venezuelan reporters – my colleagues – were ever helpful and intensely interested in what Americans thought of the country, especially its political process.

One time, a reporter asked me which of the most prominent left-wing parties, one known by the Spanish acronym 'MIR', the other as 'MAS', Americans "feared the most." I gave the only honest answer that wouldn't hurt his feelings: "about the same."

I also free-lanced stories to American papers, including the *Wall Street Journal*. Although these stores contained little that was new to a Venezuelan audience, the Venezuelan papers reported on my stories as though they were big news. Just the fact that the gringos were noticing was significant.

Venezuela's relationship toward America had been caricatured as hostile when a mob attacked Vice President Richard Nixon's motorcade in Caracas in 1958. The caricature had to be revised three years later, when Jacqueline Kennedy (who addressed the locals in Spanish) was enthusiastically cheered.

The ambivalence was expressed in the title of a book by the Venezuelan journalist, Carlos Rangel, *The Latin Americans: Their Love-Hate Relationship with The United States*.

In between Nixon's visit and mine, democracy had established roots, the State had nationalized the oil industry, previously run by foreign concessionaires, and anti-Americanism had faded.

The 'love-hate' existed, but it was the love-hate of a younger sibling toward an older sibling. That may sound patronizing, but we were the more established democracy, and more powerful and prosperous. What Venezuelans wanted most from the United States was its attention, if not admiration.

Venezuelan reporter friends routinely kidded me by calling me "Cia", telegraphing a common hunch that my actual employer was the Central Intelligence Agency. Underneath the joke lay a serious belief that America stood ready to intervene if things went sour – that is, veered left.

Another version of the 'CIA' myth was that my paper, published by the American journalist Jules Waldman (who started me at $100 a week) served as a tool of the U.S. State Department.

As an American voice, the "D.J.," as the paper was known, was careful not to get in front on sensitive stories. The night of the election, the Social Christian candidate (who had been guided by the American media consultant David Garth) held a decisive lead over the incumbent Social Democrats.

The Venezuelan papers reported that the challenger had won. In the absence of an official tally, the D.J. refused to declare a victor. I was furious, but my superiors thought it unwise for an American paper to be calling a change of power.

The two main parties were centrist in the terms of the day. Each favored a welfare state and a hefty government presence but were comfortingly pro-American and anti-Communist.

Violent leftist groups had tried to overthrow the democracy in the 1960s, but the government crushed them. Some of their former leaders traded in their fatigues and ran for office, but extremism held no purchase with the people, and the center held. By the 1970s, oil wealth was flowing and Venezuela passed for stable.

On my first flight to Venezuela, a local beer executive told me to expect "the Texas of Latin America." He meant a country with a sunny disposition, unashamed to wear its wealth, steeped in oil. Venezuelans enjoyed having a good time; I was not to expect ancient Athens.

Its democracy was not perfect. The government paid off many members of the local (and also some of the foreign) press. The executive, although freely elected, was all-powerful. Congress was largely a sham.

When I lived in Caracas, OPEC (of which Venezuela had been a founder) was flexing its muscles, and the government's oil revenue soared, presenting a problem akin to that of the fabled poor family that wins a lottery.

Corruption, payoffs to politicians, and waste were conspicuous. One time, an official was treating a group of foreign journalists to rounds of imported Scotch.

"Who's paying for all this?" I inquired.

The official smiled sadly. "There is plenty of oil."

You can hardly blame the public for becoming cynical. Another time, I was trying to understand an oration in the palm-shaded Congress for some ambitious if wholly impractical government proposal.

"What is he saying?" I demanded of an older Venezuelan colleague in the press gallery, who was taking down every word.

"*Pura mentira*" (pure lie), he noted.

The most serious problem of Venezuelan democracy was one common to democracies. The government used its wealth to buy popular support with subsidized goods, such as gasoline and food products.

People who had been farmers migrated to cities. Despite its vast arable territory, Venezuela gradually became dependent on food imports – paid for with oil exports.

A short answer for how successive elected governments failed is that they failed to heed the counsel of the architect of Venezuela's state oil industry (and of OPEC), Juan Pablo Perez Alfonzo, to "sow the oil" in productive industry. Too much was squandered.

When the price of oil cracked in the 1980s, Venezuela no longer had the revenue to sustain the illusion of middle-class prosperity. Public cynicism curdled into bitter discontent.

In 1992, Venezuela suffered a pair of January 6 moments. A charismatic former tank commander, Lieutenant Colonel Hugo Chavez, attempted a coup, and though he was captured and jailed, younger army officers acting on Chavez's behalf tried again.

Although the coups failed, economic hardship created a groundswell of support. In 1998, Chavez ran for President as an anti-establishment populist. He shocked the establishment and won.

Chavez governed as a repressive left-wing autocrat. When Chavez died in 2013, he was succeeded by his vice-president, Maduro, who was both more brutal and more incompetent.

In the United States, during the 'Great Recession' of 2007-09, gross domestic product fell about 4%. During the Great Depression of the 1930s, peak to trough, GDP fell 30%. In Maduro's Venezuela, economic output fell 68%. The currency has collapsed, and all vestiges of democracy have disappeared. Some 7 million Venezuelans are estimated to have fled. (Among them is the writer Ariana Neumann, whose late father, Hans, a refugee from Nazi Europe, had owned the *Daily Journal*. Under Chavez, the paper folded.)

A Venezuelan friend of a friend, living in Spain, spoke hopefully of Maduro's removal as a necessary first step. This expat, a former model, said, "I think of it [the Maduro reign] as an unsightly cancer on my face. The doctors have just taken it off, but that's not the end; it's the beginning. It leaves a scar, a long, painful course of treatment has to take place."

Since seizing Maduro, President Trump has said much about Venezuelan oil and little about democracy, except that he does not think Venezuela is ready for it.

When the Berlin Wall fell, no one suggested that Poland wasn't ready for democracy, even though no living Pole had ever cast a free ballot.

Democracy requires will and repeated practice. You don't get more ready by waiting. Vaclav Havel's only preparation was a jail cell.

As noted, Venezuela has a rich living memory of democratic experience. Most recently, the public showed courage and commitment. In 2024, Maduro barred the popular opposition candidate, Maria Corina Machado, from running. Ten million dared to go to the polls. Tally sheets collected by poll watchers indicated a two-to-one victory for Machado's stand-in.

The Maduro government did not release official results and Maduro declared himself the winner. The only plausible conclusion is: he stole it.

Source: World Economic Forum/(Photo by Bel Pedrosa) - https://www.flickr.com/photos/worldeconomicforum/5671221543/.

Trump has casually dismissed the leadership qualifications of Machado, maybe because she has won the Nobel Peace Prize that Trump craves and also, I'd argue, because Machado, who until recently had been in hiding, has principles and guts. She could command popular support and therefore would not need the support of Trump.

Even worse, Trump has shown the fawning eagerness to deal with Maduro's successor that he often exhibits toward autocrats. Delcy Rodríguez, the former vice-president, was a central part of the repressive Maduro government. Extremism is in her blood. In 1976, her father, a leftwing guerilla fighter, was involved in the kidnapping of William F. Niehous, a U.S. executive at Owens-Illinois, a glass manufacturer. (Neihous was rescued three years later.) Rodriguez's father died in a government prison, reportedly tortured. Delcy Rodriguez has called the Chavez-Maduro revolution "revenge for the death of our father."

A cynic would suspect that Trump is happy to deal with Rodriguez because she is unburdened by democratic values and because, since she lacks a popular mandate, she would have more to gain by dealing with President Trump. Perhaps such a deal would involve granting oil leases to American concessionaires friendly to Trump and granting an extended lease on power to Delcy Rodriguez.

It doesn't matter who President Trump supports; the choice of Venezuela's leader must be up to Venezuelans. I am glad that Trump deposed of Maduro and glad that the U.S. military performed their

job with skill, but as my friend's friend says, the road back is long and hard. It must begin now, with a transitional ruling council including Machado, and with a specific timetable for scheduling elections.

Given Trump's disinterest, oppositionists in Venezuela may have to own their future by taking to the streets. Machado would be advised, despite the risks, to return to Venezuela and hazard a public role.

The U.S. attack will be unjustifiable if its result is merely mercantile. Venezuelans – like the entire free world – once put great faith in the American ideal. Ignoring the people's wish for democracy, which they have earned, would be a terrible betrayal.

Roger Lowenstein is a financial writer and the author of several books including Buffett, When Genius Failed, and Ways and Means. This article is reproduced with permission from Roger's substack blog Intrinsic Value by Roger Lowenstein.