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Editorial

The market continues to swerve with each new development in the Middle East. This can be a scary time for investors which increases the chance of making mistakes. These are three quotes I come back to when markets are volatile.

"Everyone has a plan until they get punched in the mouth."
Mike Tyson

Yes, I am talking about Mike Tyson. The one with the face tattoo. And no, Mike Tyson is not a famous investor. He is a boxer. Many opponents found themselves weak in the knees and staggering around after climbing in the ring with Iron Mike. This may sound familiar for investors who have been through the depths of a bear market.

Like an overmatched boxer, many investors quickly shift into fight or flight mode. That means getting as much money out of the share market as quickly as possible. Many of these investors don't have a plan other than trying to get as rich as possible in the short-term. And when "everybody knows" the market will keep falling, the way to have the most money possible in the short-term is to sell.

Having a plan and an investment strategy can make a world of difference in these situations. Understanding where you want to get to over the long-term and what it will take to get you there is what keeps you invested. And staying in the game is critical because when "everybody knows" something is going to happen, it is likely the market will do the opposite.

"The biggest risk of all is not taking one."
Mellody Hobson

Mellody Hobson's quote doubles as investing and life advice. We hear a lot about how risky it is to invest. Mostly, we get this advice from people who don't invest. A more sensible approach is to reframe your thought process to focus on the risk of not achieving your goals.

When doing that it becomes obvious that risk is not the short-term volatility of growth assets like shares. It is not taking on enough short-term volatility to achieve the returns you need. This is risk tolerance vs. risk capacity. Framing risk around your goals rather than your reaction to a hypothetical scenario is the pathway to achieving them.

"The investor's chief problem-- even his worst enemy-- is likely to be himself."
Benjamin Graham

Investing successfully means trying to act as rationally as possible while knowing that complete rationality is an unachievable goal. There are many different emotions wrapped up in investing. Describing it as greed and fear falls to capture the full spectrum of those emotions.

It is not greed for greed's sake but the desire to create a better future and relieve the burden on loved ones. Fear is not just the fear of diminishing account balances. It is the fear of failing your family. Not giving them the future you desperately want to provide.

Given the complexity of the emotions around investing it is necessary to create structure and actively pursue rationality. Write down your goals, strategy and approach. Seek out people to keep you accountable. Implement speed bumps to slow down your decision making. Behavioural discipline can be a source of edge or advantage for investors but takes as much work as analysing companies.

Acknowledging that we all carry baggage that influences the decisions we make is a good place to start. A bit of self-reflection goes a long way in designing a process to overcome that baggage.

Mark Lamonica

Also in this week's edition...

This week I tackle the emerging prediction market which some brokers claim will be bigger than the share market. Ben Graham isn't around so I can't ask him what he thinks about prediction markets – but I can guess his view.

Much of the commentary about the economic impact of the Iran war has focused on oil prices. **Jason Teh** digs a little deeper and looks at the shortage of refined products.

Gold skyrocketed in 2025 as investors piled into the precious metal. **John Reade** and **Ray Jia** look at the gold supply and the ability of miners to react to the increased demand.

As markets sink, investors have continued to pour money into ETFs. **Andrew Jones** from Vanguard outlines which ETFs are on the shopping list.

Policymaking is front of mind as we approach the budget while dealing with elevated inflation. **Tony Dillon** lays out the complexity of compromise in a divided electorate.

Issues in the global private credit sector are all over the front pages as funds limit redemptions. **Geoff Saab** digs a little deeper.

Roy Green explores a new report showing the drop off in Australian innovation.

This week's white paper from **Yarra Capital Management** ponders whether the RBA's latest rate hike is one of the biggest policy errors Australia has ever seen.

Curated by Mark Lamonica and Leisa Bell

The thin line between investing and gambling

Mark LaMonica CFA

Ben Graham was born in England and moved with his family to the US when he was 1 year old. His father took the family to New York to set up a new branch of a successful family business. This was far from the prototypical immigrant experience. His family was wealthy and moved to 5th Avenue in a house staffed by domestic servants. This lifestyle would not last.

Graham's father died in 1903 when Graham was just 10 years old. The family business soon went under and his mother sold off their possessions to keep the family afloat. In a last gasp to try and salvage a future for her family his mother took their little remaining money and bought US Steel shares on margin. She was wiped out in the 1907 banking crisis.

This was the origin of Graham's hatred of speculation and in his most popular book *The Intelligent Investor* he drew a pronounced distinction between investors and speculators. Chances are he would not like what is going on today.

The not so fine line between securities markets and prediction markets

A derivative is a financial contract that derives its' value from the price of an underlying asset. For instance, a USD currency future's value is based on changes in the value of the USD.

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Derivatives can be used to hedge an exposure or for speculation. Either way there is a consensus that derivatives on underlying assets like currency and commodities are financial instruments.

Then there is the prediction market. Like a derivatives market a prediction market facilitates two parties entering into a contract whose value will be determined by the outcome of an event.

Some of these outcomes could conceivably be used to hedge a market outcome like the recent contracts on the Iran war or those on consequential elections. Then there was the $145 million in trading volume based on Bad Bunny's Super Bowl halftime show.

Many of the prediction contracts are on the outcomes of sporting events. The technical difference between sports betting and a prediction market is a bookie is the counterparty in betting while a prediction market just facilitates the trades. This is a difference without a distinction if you are placing the 'bets.'

Investment markets and prediction markets merge

Investment and prediction markets are starting to merge in the US. Brokers Robinhood and Interactive Brokers Group now offer share trading and prediction contracts side by side. Robinhood has long focused on the gamification of investing. Now they are throwing off the pretense there is any distinction between investing and gambling.

As for Interactive Brokers, their Chairman Thomas Peterffy told Barrons, "In my mind, prediction markets will be the biggest space for investors in the coming years, I think it will far exceed the popularity of even the stock market."

The regulators in Australia are taking a different approach and have classified prediction markets as gambling and banned them. In the US they have been declared 'event derivatives' and are regulated nationally by the Commodity Futures Trading Commission ("CFTC").

Whatever you want to call prediction markets it is hard to argue they aren't popular. In November 2025 prediction markets hit $13 billion in trading volume. That is up from $100 million in April of 2024. Polymarket and Kalshi are the two industry leaders.

The Wall Street Journal followed one 'prediction market trader' during the Super Bowl in February. The former university student dropped out to trade full time and saw the Super Bowl as an opportunity to take advantage of less experienced traders.

He went through all the motions of having a system in place. One picture showed him with two laptops and multiple monitors which he used to trade what he described as mind numbing volatility.

Reminiscent of a parrot who learned to mimic seemingly complex patterns he constantly traded during the game trying to take advantage of recreational gamblers. After placing $300,000 worth of trades he ended up with net losses of $100,000 during the three-hour Super Bowl.

Exploiting recreational investors

Since Ben Graham drew the distinction between speculation and investing the lines continue to blur. At the risk of seeming anachronistic I think the distinction still matters and your outcomes are dependent on which side you find yourself.

For those that still consider themselves firmly in the investor camp there is some good news. Investing success is reliant on identifying your edge or competitive advantage over other investors. The sources of edge range from analytical ability to simply making fewer mistakes than most investors.

A long-term orientation is an edge that anyone can exploit. And as more people lose sight of the differences between gambling and investing that edge becomes more valuable and easier to gain.

It is easy to look at predication markets from a moralistic high ground. It is satisfying to roll your eyes at the hubris and naivety of 'prediction market traders.' But we all can fall into the trap of seeing investing as entertainment and sport.

The reason all of us invest is to try to improve our own lives and the lives of people we care about. As more people treat prediction and share markets as a mechanism to gamble, keep focused on what really matters.

Ben Graham's words serve as a reminder of where our focus should be. Graham said, "A long-term investor is the only kind of investor there is. Someone who can't hold on to stocks for more than a few months at a time is doomed to end up not as a victor but as a victim." Don't forget that.

Mark LaMonica, CFA, is Director of Personal Finance at Morningstar Australia.

The refinery problem: A different kind of energy crisis in 2026

Jason Teh

The Strait of Hormuz has been described as the world's most critical energy artery, but in February 2026, that artery was effectively severed. As conflict between the US and Iran escalated, the closure of this passage didn't simply spike the price of oil — it broke the global supply chain for refined products in ways that have no modern parallel, not even the 2022 Ukraine crisis.

2022 vs 2026

The 2022 Ukraine energy crisis was severe, but its oil impact was one of trade redirection, not physical destruction. While the International Energy Agency (IEA) initially forecast that 3 thousand barrels per day (mbpd) would be removed from global markets, the actual production reduction was smaller - Russian oil was diverted to new buyers in Asia and Turkey, often at a significant discount to bypass Western sanctions. Refineries outside Russia ran flat out to capture soaring margins. The system strained but did not break.

The 2026 Iran energy crisis is categorically different. The Strait blockade has physically trapped an estimated 14 to 15 mbpd of crude - roughly five times the peak disruption of the Ukraine crisis. Unlike 2022, however, the market entered this conflict with high global crude inventories, providing an initial buffer. Several emergency mechanisms have since cushioned the impact further. The IEA coordinated a record 400 million barrel strategic reserve release - more than double the 2022 response - delivering approximately 2 mbpd to the market. Saudi Arabia ramped its Petroline pipeline from 3 mbpd to its 7 mbpd ceiling, generating approximately 4 mbpd of incremental exports, while the UAE's Abu Dhabi Crude Oil Pipeline (ADCOP) lifted an estimated 0.4 mbpd above pre-war throughput. Together these factors have prevented the crude price spiralling out of control, even as roughly half the total Hormuz shortfall remains unmet.

Global crude disruption	mb/d
Crude oil & condensate through Strait (pre-war)	**14–15**
Saudi Petroline (incremental above pre-war)	~4
UAE ADCOP (incremental above pre-war)	~0.4
IEA SPR release	~2
Crude offsets	**~6.4**
	~7.6–8.6

Sources: IEA OMR March 2026; S&P Global; EIA; Rystad Energy.

The refined product problem

The crude market has partial buffers. The refined product market has none. The Strait carries about 5 to 6 mbpd of refined products – petrol, diesel, and jet fuel – representing roughly 19% of all global seaborne trade in finished fuels. Unlike crude, there is no pipeline or alternative route through which these products can bypass the chokepoint.

The disruption does not stop there. Of the 14–15 mbpd of Gulf crude normally transiting the Strait, approximately 80% flows to Asian refineries. That feedstock loss is now spreading rapidly across the region in the form of refinery run cuts. In China, Sinopec has cut throughput by more than 10% while smaller teapot refiners have lost access to nearly 1.4 mbpd of Iranian crude imports. In Singapore,

ExxonMobil's Jurong Island operations have been cut to 50% or lower and Singapore Refining Co has reduced runs to 60%. Accounting for the full extent of cuts across Japan, South Korea, Taiwan, and smaller regional refiners, Wood Mackenzie estimates the total Asian run cut at 4 to 5 mbpd. Combined with the direct loss of Gulf refined product exports, the total shortfall reaches 9 to 11 mbpd — far exceeding anything the crude offsets can address.

Global refined product disruption	mb/d
Gulf refined product exports blocked at Strait	~5–6
Lost Asian refinery output	~4–5
	~9–11

Sources: IEA OMR March 2026; Wood Mackenzie. Approximate.

The result is a refined product market under a degree of stress that makes the 2022 Ukraine crisis look mild by comparison. The crude price is below its 2022 peak while every refined product price is well above it.

Brent vs refining margins	2022 Ukraine war peak	2026 Iran war (mid-March)	vs 2022 peak
Brent crude ($/bbl)	139	102	27% below
Singapore margin ($/bbl)	30.0	35.5	+18% above
Diesel crack ($/bbl)	33.7	48.2	+43% above
Jet fuel crack ($/bbl)	26.2	52.1	+99% above
Gasoline crack ($/bbl)	19.5	41.3	+111% above

Sources: Reuters/EIA; LSEG; Wood Mackenzie. 2026 figures as of mid-March 2026.

The jet fuel crack spread at $52.10 per barrel — nearly double its 2022 peak — is forcing airlines to respond. Qantas has raised international fares by approximately 5% and warned that some routes may become uneconomical if prices remain elevated. Air New Zealand has cancelled approximately 5% of its schedule through early May.

The aviation impact is just one dimension of Australia's broader economic exposure. The country imports roughly 90% of its liquid fuel as refined product from Asian refining hubs — South Korea accounts for 32% of imports, with Singapore (23%) and Malaysia (23%) making up most of the remainder. While direct Gulf imports are negligible, approximately 59% of the collective crude intake for Australia's top suppliers transits the Strait. Australia does not import Gulf fuel directly, but the Asian refineries providing its supply are critically dependent on that Middle Eastern feedstock.

Australia's two remaining domestic refineries — Ampol's Lytton in Brisbane and Viva Energy's Geelong facility — provide a partial buffer, sourcing crude primarily from Southeast Asia and Africa, but they meet less than 20% of national consumption. With Asian refiners cutting runs and China and Thailand suspending fuel export contracts, competition for available refined product is intensifying rapidly. Australia's 29 days of petrol reserves and 25 days of diesel provide a buffer — but one that is rapidly depleting as international supply lines tighten.

Conclusion

The global refined product supply chain is only as resilient as its narrowest physical chokepoint. Where 2022 was a price shock the market absorbed through trade redirection, 2026 is a physical blockade compounded by infrastructure destruction and a regional 'feedstock famine'.

The crude oil market has been partially protected by the policy tools available to governments and the IEA — reserve releases, pipeline diversions, emergency output increases. These mechanisms, while imperfect, have provided a meaningful buffer for global crude benchmarks. For refined products, no such safety net exists. The finished fuel that used to flow through the Strait cannot be rerouted or replaced from alternative sources. Until the Strait reopens, the world remains in a structural fuel deficit and no policy tool currently deployed can change that.

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

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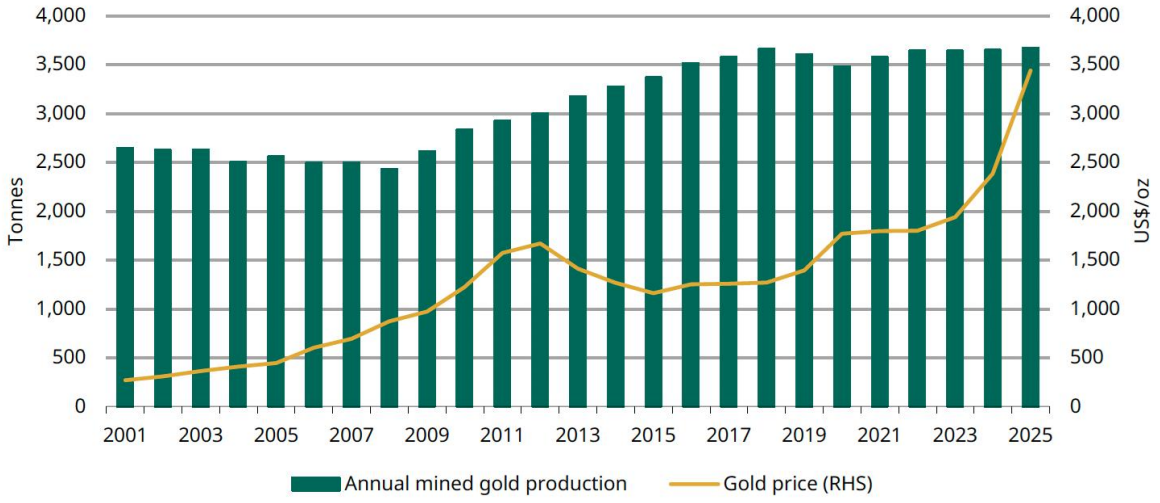
Are we running out of gold?

John Reade, Ray Jia

Mined gold production reached a record high in 2025, based on our 2025 Gold Demand Trends report (Chart 1). Global miners produced 3,672 tonnes of gold, a modest year-on-year increase of 1% and the highest in our data series – albeit this may be subject to revisions when more data becomes available.[1] And we expect mined gold production to further increase in 2026 – at a mild pace – as operations resume at two major mines.

Chart 1: A modest increase took 2025 mined gold production to the highest in our data series



Source: Metals Focus, Refinitiv GFMS, World Gold Council

In a previous article, we explained why gold mine production typically lags the gold price and we discussed the possibility that production will plateau over the coming years. A key reason for this is that the new gold mining projects are getting harder to discover, due mainly to geopolitical instability in many prospective regions; lengthening development timelines amid protracted permitting processes for environmental and social licenses; rising capital costs; and complicated project financing in remote areas.

Based on the annual reports of major gold mining companies, the 2026 production outlook is generally cautious – most forecast declines compared to 2025. Without more discoveries, current reserves naturally deplete – perhaps at a faster pace should the gold price keep rising – which could possibly encourage production to accelerate. This has raised concerns from investors:

- Are we approaching a structural shortage of mineable gold?
- If not, when can a meaningful supply response be expected?
- Should any major discoveries be found, will they suppress the gold price?
- Could gold supply be manipulated?

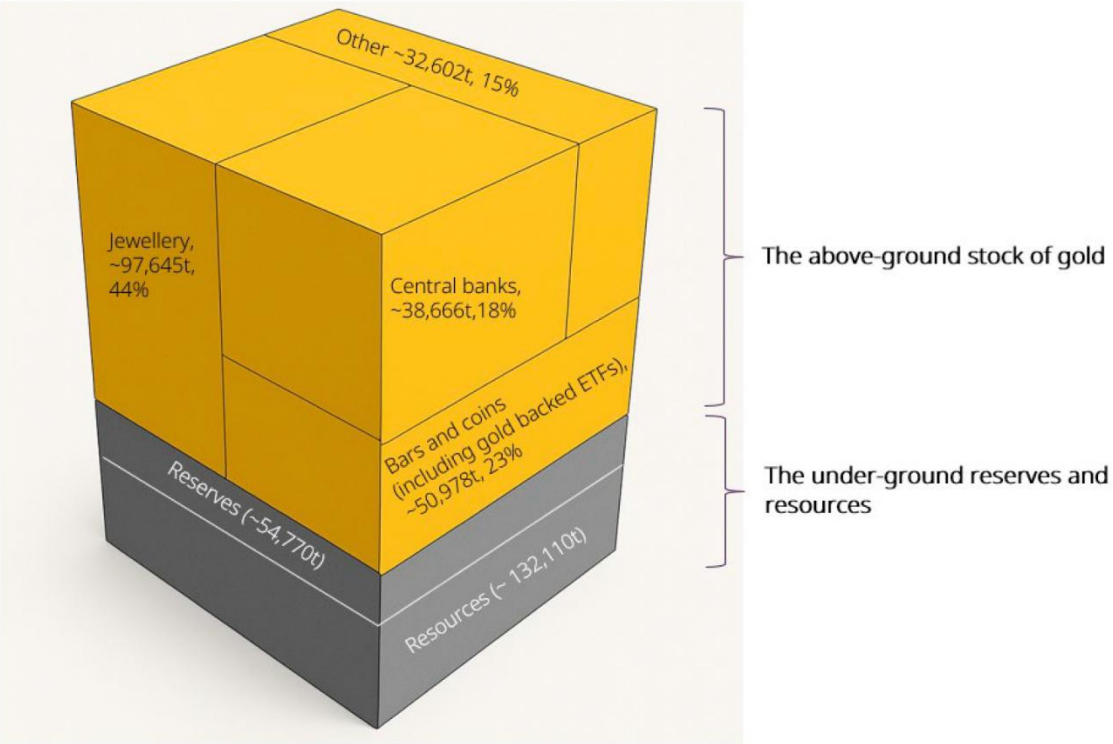
In this update, we aim to provide some guidance for investors regarding these questions.

Will we eventually run out of gold?

There are two parts related to this question – the broader gold supply and mined production. Our answer to both is: *not likely.*

First, we are not likely to run out of *gold supply*. There are two major parts to supply: recycled gold and mined gold. While mined gold may be plateauing as noted previously, recycled gold supply comes from various sectors. As shown in Figure 1 below, total above-ground gold amounts to 219,891 tonnes. And because gold is virtually indestructible, almost all of it is available to come back to the market under certain market conditions. For instance, when the gold price is high, it may trigger sellbacks of gold jewellery from consumers and more industrial recycling – factors that are far more responsive to price than mined gold production.

Figure 1: The above-ground gold stock and under-ground reserves*



*End-2025 estimates from Metals Focus. Reserves are the portion of an ore deposit that can be economically extracted. For an ore deposit to be considered a reserve, numerous factors will have been assessed, such as geological, mining, processing, marketing, economic and ESG. Only once all of these have been taken into consideration and the ore is still economically viable will it be considered a reserve. Projects that have reached feasibility stage are likely to fall into this category. There are two types: proven and probable. Resources are the portion of a deposit in which companies have less geological knowledge and confidence, i.e. less drilling data and only simple economic modelling applied, or in some instances no economic modelling at all – it's a broad category ranging from inferred, indicated to measured. Estimates for reserves and resources can vary, for example reserves are currently estimated to be ~64,000t by the US Geological Survey.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Second, we are not likely to run out of gold to mine either.

Metals Focus estimates that there were 54,770 tonnes of gold reserves by the end of 2025, i.e. the portion of an ore deposit that can be economically extracted under conditions as of 2025, whereas the US Geological Survey (USGS) data estimates gold reserves to be around 64,000 tonnes.

And resources – the total potential of gold deposits based on geological evidence and sampling, including the part that is economically minable and the part that is not – are estimated to be 132,110 tonnes, based on data from Metals Focus.

There is a common misconception that proven gold reserves can only last ~15 years at the 2025 rate of production. But it is important to note that estimates of below-ground reserves have remained stable for decades even as gold is being continually mined out.

This stability is explained by several factors, which will likely continue:

- Lower-grade deposits once unprofitable become economically viable – in other words, they move from resources to reserves as the gold price increases
- More gold is discovered, albeit at a slower pace. When a gold deposit is discovered, sufficient reserves are drilled out to justify the project construction.[2] But as some of the deposit depletes, further exploration often takes place, keeping total resources relatively stable.
- Often when a mine is built and brought into production, exploration geologists start to look for near-to-mine resources (often small deposits, sometimes known as satellite deposits), that can supplement reserves.

Also, with technology advancing, better geological modelling and deeper underground mining becoming more effective, making new discoveries more viable and extending current usable supply. Theoretically, gold exists deep under earth's crust[3] and even under oceans,[4] although these are not currently viable due to technological constraints or cost considerations and, in some case, due to ESG concerns.[5]

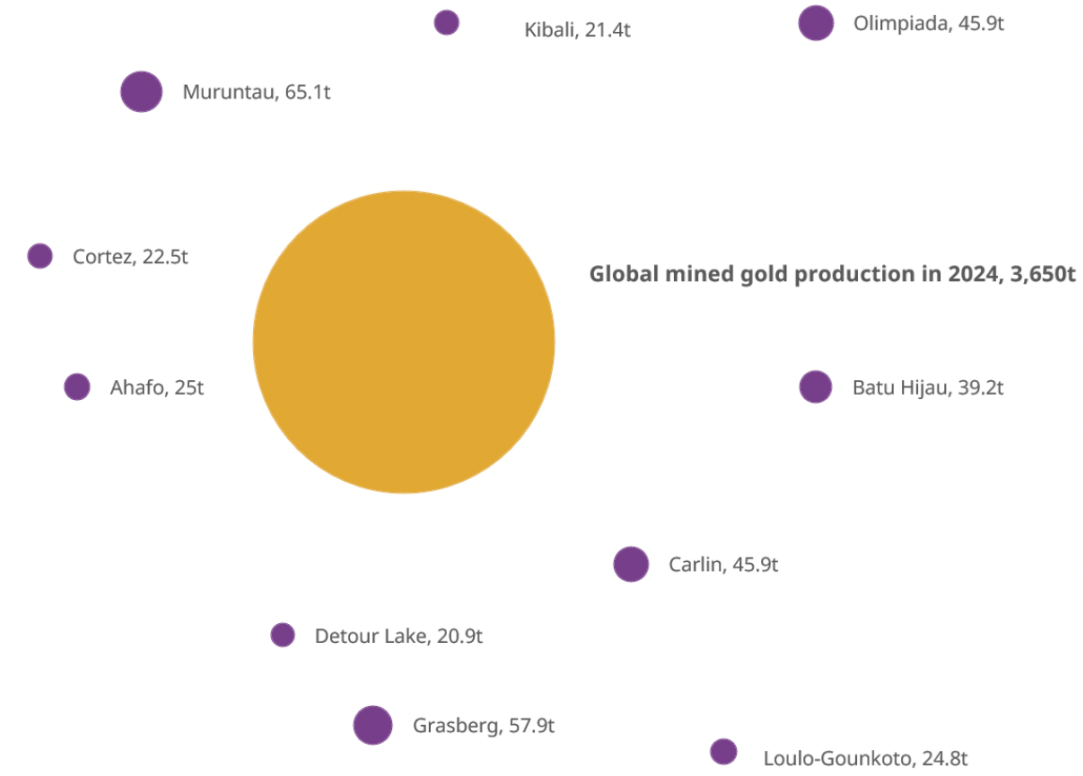
In conclusion, while there is a slim possibility that we run out of 'easy' and 'cheap' gold to mine – if all discoveries stopped, technological advancement and a price that is high enough could see gold extracted from previously unfeasible supply sources.

How would sizeable changes in mined gold production impact the gold price?

Changes to gold production are normally only reflected in changes to the price over the long term; any immediate impact will likely be mild. First, any new discovery is unlikely to be large enough to move the needle. Based on data from Metals Focus, the Muruntau mine in Uzbekistan was the largest in the world in 2024, producing 65 tonnes of gold during that year. But compared to the world total of 3,650 tonnes, it is small (Figure 2). Second, as we previously noted, any new discovery is likely to take more than a decade to be explored, permitted, built and ramped up to full production. The market will have had time to absorb the news and may gradually price in such expectations, making little impact in the short term.

Figure 2: The largest gold mine production is negligible when compared to the global total mined

Top 10 individual gold mines vs the global mined production in 2024



Source: Metals Focus, World Gold Council

2. More exploration would incur up-front costs, and mines with reserve lives of more than about 20 years are not rewarded by the equity market.
3. See: Mantle oxidation by sulfur drives the formation of giant gold deposits in subduction zones | PNAS, 19 December 2024.
4. See: Gold in seawater - ScienceDirect, May 1990.
5. See: Environmental, Social and Governance (ESG)

From a modelling perspective, holding all else constant, QaurumSM suggests that every ~25 tonne gold supply increase/decrease leads to an approximate 1% decline/rise in the gold price during the same period. But both our model and the real world function in a more complicated way. For instance, any decline in the gold price caused by a rise in mine production may lift demand for gold jewellery and industrial use, offsetting the negative price impact. Furthermore, recycled gold supply may also taper off as the gold price declines, counteracting the increase in mine production. Lastly, changes that feed through each segment may not happen during the same period, further complicating the impact. It is important to note that it is the overall supply and demand conditions that collectively impact the gold price.

Is it possible for gold producers to collectively impact mined gold supply?

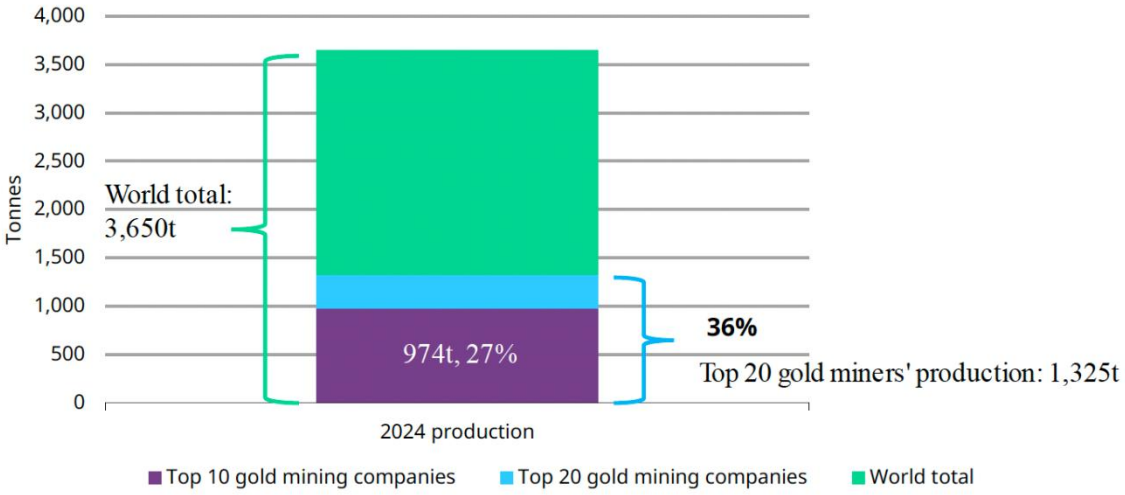
The answer is *"probably not possible in the real world".*

First, gold supply comes from various sources, including mine production and recycling. If we assume that gold miners collectively limit production to drive up the price, recycled gold supply is likely to rise in response to the higher gold price as it often does, potentially inserting pressure on the price. With above-ground gold holdings at 219,891 tonnes, the potential for recycled gold supply is vast – although not all of it can be mobilised quickly – compared to mined gold supply.

Second, the gold mining industry is globally diverse and its concentration ratio is low. The top ten gold producers accounted for 27% of total global production. It would be difficult to persuade all gold miners to act collectively, not to mention artisanal and small-scale gold mining (ASGM) supply, which accounted for around 20% of the global total in 2024, based on our estimate[6]; these ASGM sources are even less likely to be responsive to attempts to constrain production. Lastly, monopolistic actions, such as coordinating production cuts across the gold industry, are illegal in many jurisdictions.[7]

Chart 2: The gold mining industry is not particularly concentrated

Top 10 and top 20 mining companies' gold production share in the global total*



*Data as of 2024 due to data availability.
Source: Metals Focus, World Gold Council

Summary

Despite higher gold prices, mined gold production has grown only modestly, raising questions about long-term sustainability. While the risk that we run out of 'easy' reserves appears limited, technological advances and a gold price that is high enough should help unlock currently uneconomic supply. And sizeable above-ground stocks – though not all readily accessible – can supplement mine output when conditions allow, supporting overall supply stability.

Even when large projects come online, their near-term price impact is likely limited. Our model suggests a 25 tonne change in supply translates into roughly a 1% price move, all else equal, but real-world dynamics are far more complex. Lastly, fragmented production, artisanal mining, and recycled supply make coordinated supply responses unlikely, reinforcing gold's long-term market stability.

[1] We published our FY 2025 and Q4 data ahead of most companies' quarterly reports, so the final numbers will differ from our estimates. Revisions to our mine supply dataset are usually concentrated in recent quarters, but revised mine production data released by the government of Indonesia saw a 7t and 5t increase in estimates for mine production as far back as 2015 and 2018, respectively.
[2] More exploration would incur up-front costs, and mines with reserve lives of more than about 20 years are not rewarded by the equity market.
[3] See: Mantle oxidation by sulfur drives the formation of giant gold deposits in subduction zones | PNAS, 19 December 2024.
[4] See: Gold in seawater - ScienceDirect, May 1990.

[5] See: Environmental, Social and Governance (ESG)
[6] See: Understanding ASGM: A Vital Segment of the Gold Sector | World Gold Council, 27 June 2025.
[7] See: The Antitrust Laws | Federal Trade Commission; International Competition Law: A Global Perspective for Multinational Corporations - Michael Edwards | Commercial Corporate Solicitor

John Reade is a Senior Market Strategist, and Ray Jia is Research Head APAC ex-India at World Gold Council, a sponsor of Firstlinks. This article is for general informational and educational purposes only and does not amount to direct or indirect investment advice or assistance. You should consult with your professional advisers regarding any such product or service, take into account your individual financial needs and circumstances and carefully consider the risks associated with any investment decision.

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ETF investors adding to portfolios during recent volatility

Andrew Jones

Geopolitical events like the current Middle East conflict and supply chain disruptions can create short term market volatility, but they rarely change the long-term fundamentals for investors as the Vanguard Index Chart demonstrates.

Vanguard has seen more than $1.5 billion of net inflows into its ETFs in the first half of March, already outpacing flows in January and February, indicating investors are using the volatility to add to their portfolios.

Flows have been focused towards equity ETFs, with a clear preference for broad-based, diversified core exposures.

The most popular ETF has been Vanguard Australian Shares ETF (VAS) with around $670 million of inflows, followed by Vanguard MSCI International Shares ETF (VGS) at approximately $440 million.

Other notable inflows include Vanguard Australian Shares High Yield ETF (VHY) with approximately $100 million and Vanguard MSCI Index Shares (Hedged) ETF (VGAD) with approximately $66 million, and the newly launched Vanguard S&P 500 ETF (V500), which has added around $45 million since launch.

Vanguard's diversified ETF suite has also remained positive, totaling around $58 million of inflows.

Strong start to the year for ETFs

ASX ETF figures show that $4.4 billion flowed into Australian ETFs in February, following $5.1 billion in January. With this $9.5 billion of inflows recorded to February and a strong start to March, it is early days, but the ETF industry is on pace for a very strong year.

Total ETF assets in Australia passed $300 billion by the end of 2025, almost doubling in just over two years, from around $170 billion at the end of 2023.

Australians are leaning into diversification, discipline and low-cost exposure, and ETFs are a practical way to do that.

This response from investors is consistent with what Vanguard has seen in the past.

Market volatility is nothing new. History shows that those who ignore the emotional swirl of short-term market conditions and focus on long-term results tend to be rewarded for their patience and discipline.

Vanguard's founder Jack Bogle himself said, "Stay the course. No matter what happens, stick to your program. I've said 'stay the course' a thousand times and meant it every time. It is the most important single piece of investment wisdom I can give to you."

Andrew Jones is ETF Investment Product Manager at Vanguard Australia, a sponsor of Firstlinks. This article is for general information purposes only and does not consider the circumstances of any individual.

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Policy setting in democracies

Tony Dillon

Energy and climate policy in this country continues to divide many in the electorate and has been at the forefront of political debate for several decades now.

Recently, I argued that current policy is leading us down a path of 'duplication' as opposed to a path of genuine energy 'substitution'. I was implying that policy is top heavy in the pursuit of emissions reduction, compared to economic and reliability considerations.

Yet many would disagree with that assessment, saying that continued fossil fuel use should be stopped forthwith, with emissions reduction the priority.

Energy policy is just one area where it feels as if political debate has dialled up in Australia in the last decade or so, with immigration being another. But just how polarised are we politically?

Formulating climate and energy policy is really an optimisation problem with competing objectives. Governments must balance emissions reduction, affordability, energy reliability, and economic stability. It is about assigning weights to these goals to hopefully optimise the policy outcome. I say "hopefully", because sometimes policies are also shaped by political incentives and ideological preferences.

The electorate would in the main agree that these are worthwhile goals when it comes to energy. But where opinion differs and debate occurs is around the weight that each should carry when setting policy.

Energy policy is an example of where there can be broad agreement on a set of core policy objectives in a democratic society. The idea that policy should be the outcome of trade-offs between competing objectives is a central concept in most democracies, resolved either through debate or at elections.

Where things can become unstuck is when the electorate disagrees not just about the weights, but about the objectives themselves. Climate and energy policy debates for example, can feel more polarised when people treat their preferred objective not as a trade-off but as a moral imperative. This can lead to less willingness to compromise, and stronger rhetoric.

At that point in the policy cycle, there is little or no attempt to balance objectives, with one or more placed above others. And trade-offs are deemed unacceptable, with certain technologies definitively ruled in or out. From there, political tension rises, along with economic and operational divergence. This is arguably where climate and energy policy debates sit today.

But how can this sequence be resolved? Eventually reality becomes the arbiter. Economics, and indeed physics in the case of energy policy, will ultimately force a reframing of intent, and a reconsideration of previously excluded approaches. If however, the mindset of government is to double down on specific goals and targets, and to try and eliminate compromise through rhetoric, then a democratic system has one final correction mechanism: the ballot box.

This is the beauty of democracies, and it reminds me of a quote by academic and author Yuval Noah Harari who said on elections, “People feel bound by democratic elections only when they share a basic bond with most other voters”. “They are a method to settle disagreements among people who already agree on the basics”.

By agreeing on the basics, Harari refers to things like: a shared history, the rule of law, the authority of institutions, and the notion of shared community values nationally. Having a shared framework allows people to accept election outcomes when they lose, because they still share a sense of belonging in the national community.

That feeling of belonging can be challenged however, if trust in institutions declines, polarisation in certain policy areas entrenches, or social cohesion fragments. If groups feel they are not a part of one national community, commitment to electoral outcomes can weaken.

Political debate has certainly become more intense over time in Australia, and it seems the sense of belonging in the community has perhaps become a bit of a stretch for some groups. In particular, we have seen tension rising because of cost-of-living pressures, housing affordability, rapid population growth, and cultural conflict. These issues can strain tolerance for policy trade-offs and lead to division in communities.

Which is why as a nation, we must be forever vigilant. Democracies aren’t a given, and policymakers need to be mindful not to alienate communities and instead be more aligned with mainstream ideas and attitudes, and civic identity, otherwise majoritarian democratic rule can feel authoritarian. Particularly when sweeping policies are implemented when large portions of the electorate disagree with them.

But tensions aside, the basic consensus remains intact, and the electoral experience overall is still positive[1]. Many Australians may disagree with policy paths taken currently, but they still accept the system that determines policy.

[1] Australian National University (ANU) research shows that while support for democracy remains high among most Australians, satisfaction declined in the 15 years to 2023. Its findings showed that 77.4% of Australians were satisfied or very satisfied with democracy compared to 81% in 2008, with the ‘very satisfied’ category dropping from 23.4% to 14.2%. And recent ANU research found a generational divide, with only 44% of Australians aged 18-24 believing democracy is the preferred model, compared to 90% of those aged over 75.
A 2025 Lowy Institute poll also found broad support, with 74% of Australians considering democracy to be the best form of government despite low satisfaction with some outcomes. And that free and fair elections, the rule of law, and a ‘fair go’ were strongly valued.

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

Take my money and lie to me… again

Geoff Saab

This will be the third time I've written specifically about private assets under the "take my money and lie to me" title, and honestly, I wish I didn't have to do it.

The first time I did so, in December of 2022, a large Canadian mortgage lender with a sterling reputation decided that they would suspend redemptions on a fund that was marketed to investors as a safe, high-yielding fixed income alternative. As I write this in early 2026, the fund still has not resumed business as usual.

The investment returns, once reliably in the high single digits, since turned negative.

ANNUAL RETURNS

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026[2]
7.2%	8.6%	7.0%	4.4%	7.4%	6.6%	-0.3%	0.0%	-6.2%	-6.5%

Oops!

But this was just the first of many. There are others. I have a client who owns one of these failing private funds from their prior advisor. We are trying to help them sell this thing, to no avail. Last quarter the fund manager was able to redeem 0.07% of the requested units for sale. That's not a typo. That's seven one-hundredths of one percent.

In other words, the client is effectively trapped.

And then earlier this month, news hit that yet another private Canadian real estate investment fund would be freezing redemptions, and is considering going public to grant their unitholders liquidity. This seems to be to be a fascinating opportunity to see what kind of value the public markets are willing to place on non-traded assets. I'm not sure exactly how this story ends, but it could accelerate the rush out of private funds.

(In case you're wondering, I'm purposely leaving out the names of these firms to avoid dealing with the inevitable blowback from advisors who have client money in these funds. Let's just say, if you know, you know. And you probably wish you didn't.)

Look, there's a clear pattern emerging here, and it's not limited to the Canadian real estate market. South of the border, things are not going too great either. Blue Owl Capital (Redefining alternatives®) can't seem to get its name out of the news.

But don't forget about BlackRock, which limited redemptions in a flagship private credit fund for the first time ever. Or Blackstone, which reportedly had to inject $400 million of its own capital into a fund to meet redemption requests.

Or this private German pension fund for dentists that blew up €1.1 billion speculating in private assets (oops!)

Meanwhile, this week the FT published a piece explaining how two private equity firms are offering UBS Wealth Management a cut of their performance fees in exchange for pushing their private capital products to their client base, made up of some of the world's wealthiest private client investors. This isn't unique, and it tells you a lot about whose interests your high end 'wealth manager' is serving when he or she loads your portfolio up with these funds. While the current investors are clamoring to get out, your 'trusted advisor' is using your wealth to provide exit liquidity.

Tone deaf marketing (aka making stuff up and hoping they don't notice)

And while these private funds increasingly show signs of cracking and buckling under a complete lack of liquidity, the salespeople do their best to keep the cash pouring in from new investors. Coincidentally, this week I happened to come across this slide from a Canadian institutional money manager's marketing deck, outlining their expected returns under various economic scenarios.

Matrix of Expected Returns (CAD)

SCENARIOS	STAGFLATION	SOFT LANDING	PRODUCTIVITY BOOM	RECESSION
PROBABILITY	50%	25%	15%	10%
TRADITIONAL INCOME				
Money Market	2.4%	2.3%	2.3%	2.1%
Canadian Bonds	-0.2%	4.2%	3.1%	5.8%
NON-TRADITIONAL INCOME				
Diversified Credit	6.5%	7.0%	7.0%	5.0%
Diversified Real Assets	7.0%	7.5%	8.0%	6.0%
TRADITIONAL CAPITAL APPRECIATION				
Canadian Equity	-11.7%	4.9%	13.5%	-36.0%
U.S. Equity	-13.8%	2.8%	19.2%	-24.3%
International Equity	-10.8%	2.5%	14.9%	-24.1%
Emerging Market Equity	-11.1%	2.3%	11.7%	-33.0%
NON-TRADITIONAL CAPITAL APPRECIATION				
Private Equity	10.0%	12.0%	15.0%	8.0%
CAD/USD	0.70	0.73	0.75	0.65

I'm at a bit of a loss for words here, but here is one that comes to mind: bul**hit.

The manager expects that in a stagflationary or recessionary economy, public market equities will get crushed. But private equity, and 'non-traditional' income (private debt) will somehow, magically, do just fine.

Now, I just gave you examples of private debt funds around the world imploding, all while global stock markets are clinging near all-time highs. If the stock market falls 10-30%, as the manager believes will happen in these potential scenarios, there is no plausible scenario where these private assets go UP. None.

This goes beyond bad investing, or poor investor education. It's misleading marketing. Less charitably, it's a [complete and utter] lie.

It's why I write my newsletter. It's why I wrote this book. Thanks for reading and thanks for your support!

Geoff Saab is the author of Low Risk Rules: A Wealth Preservation Manifesto, and writes a free newsletter at lowriskrules.substack.com.

Australia was once a world leader in innovation, now the system is 'broken'

Roy Green

Australia's research and innovation system is "broken" and needs "bold reform", according to a major new independent report released on Tuesday.

Titled "Ambitious Australia", it's the culmination of a strategic examination of research and development in Australia, commissioned by the federal government in December 2024. It was led by Tesla chairwoman Robyn Denholm.

Ambitious Australia joins a long line of reports stretching back to the Hawke-Keating era in the 1980s and 1990s, when public spending on science, research and innovation gained a substantial boost.

By the end of the 1990s, the fastest-growing component of Australia's export mix was high-value, complex, finished products. Correspondingly, Australia's rate of productivity growth was running well above the OECD average.

We are now in a very different world. As this new report shows, Australia has fallen behind its peers on many fronts.

Diagnosing the problem

If the report did nothing other than highlight how fragile Australia's hard-won prosperity is, it would still have performed a valuable service. And on this point, it does not hold back.

The report notes Australia's manufacturing as a share of gross domestic product (GDP) is the lowest among developed economies in the OECD.

Australia also has among the lowest share of spending on research and development in the OECD at 1.69% in 2023–24. This is from a peak of 2.24% of GDP in 2008-09.

And between 2010 and 2020, Australia's productivity growth was the weakest it had been in six decades.

Of course, correlation is not causation. But in most countries, manufacturing is where businesses make the biggest commitment to research and development. It is hardly surprising that as manufacturing has declined, so, too, has spending on innovation.

Rethinking our reliance on resources

The economic concept of "comparative advantage" suggests a country should specialise in producing the things it can with a lower opportunity cost than its trading partners.

The problem is that in pursuit of comparative advantage, successive federal governments have allowed Australia's resources exports – such as iron ore and coal – to crowd out high-value manufacturing.

The task of this review was twofold.

First, it had to think through the reconstruction of our entire research and innovation system. This includes neglected 'blue sky' research, which doesn't have immediate practical use, but which has led to world-changing inventions.

For instance, work on black hole mathematics played a key part in the invention of WiFi at CSIRO.

Second, it had to ensure the system was 'fit for purpose' as part of broader industrial policy to build new areas of competitive advantage in global markets and value chains.

The report's recommendations

After a lengthy consultation process, the report proposes a comprehensive "plan for action", with 20 recommendations, including:

- better support for foundational research
- consolidation of fragmented research and innovation programs
- changes in the incentive structure for business research and development
- improved startup and early-stage financing
- embedding research and development in public procurement.

Echoing previous reviews, *Ambitious Australia* also called on the federal government to establish a new national innovation council. This body would set priorities and coordinate efforts to meet goals across six national innovation 'pillars' in:

- health and medical
- agriculture and food
- defence
- environment and energy
- resources
- technology.

Overall, the idea is to promote more efficient teamwork across these pillars between government, business, investors and researchers on 'high-risk, high-impact' challenges.

What could work better

The problem with this approach is that while the motivation is sound, the bureaucratic complexity of the new structure may prove a drawback. This is especially the case when it comes to getting industry involved.

As a number of submissions, including one from the Business Council of Australia, suggested, Australia should be following the lead of countries like Germany, the UK and US, which have built a network of collaborative research and innovation hubs in specific locations.

For instance, the UK Catapult centres bring together some of the UK's top businesses, scientists, technical specialists and engineers to work side by side. In doing so, they bridge the gap between research and industry.

This is not a new idea. About 30 years ago, then-Prime Minister Paul Keating's "Innovate Australia" policy statement favoured a similar model, with the CSIRO and universities as an engine for industrial transformation.

However, as with so many policy statements and reports, it became a casualty of a change of government. The Rudd-Gillard government's Venturous Australia report suffered a similar fate.

Gaps to be filled

The recommendations in the report are mostly compelling. But there are still some significant gaps.

For example, the report offered no view on whether the current research and development tax incentive represented better value for taxpayer money than direct targeted funding.

Nor did it address the crucial role of management in improving productivity by engaging with workforces and building their capacity to adopt and adapt to new technology, such as embodied artificial intelligence in manufacturing.

And then there's Australia's regions. These can play a vital part in the research and innovation system because they address the related challenges of energy transition and economic diversification.

A separate report on the government's Energy Industry Jobs Plan goes some way to filling this gap.

What's next

Ambitious Australia outlines many recommendations whose time has surely come – especially given the federal government's vision for a "Future Made in Australia".

The challenge now is to work through the report in the lead-up to the 2027 federal budget and beyond. We must also ensure strategic intent is matched by transformative actions.

Roy Green, Emeritus Professor of Innovation, University of Technology Sydney. *This article is republished from The Conversation under a Creative Commons license. Read the original article.*

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