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Editorial

I often find myself reminiscing on my days at university, though rarely with the kind of nostalgia people like to romanticise.

One aspect I distinctly recall is diving into online research archives in an essay-induced panic. Hardly an intellectual pursuit when performed at 1am, but these were before the days AI could come to your rescue.

Ironically, I now find myself doing the same thing for fun - and for my job. The two can be synonymous if you're lucky. In one of these late-night rabbit holes, I came across a study that caught my attention: *Does Paying for Data Change Investment Decisions? (2026)*. As the title implies, the authors aimed to determine whether the act of paying for investment data vs receiving it for free, would alter how participants would value the information and therefore act upon it.

This becomes particularly important when we consider the last two decades in financial markets: an explosion in retail involvement alongside a rise in the availability of market data. Conventional wisdom holds that more information is always better – but is that actually the case?

The test

Participants were asked to complete a series of trading rounds, each beginning with \$100 and a graph showing past half-hour stock returns and buy/sell order-flow imbalance (the net difference between buying and selling pressure). In some rounds the imbalance helped predict the next return, and in others it was pure noise.

Crucially, the experimental group of participants had to decide whether to pay \$4 for access to the additional data. After they made their choice, the computer randomly determined whether the round

was a paid round where their decision was binding, or a free round, where everyone received the data regardless of what they chose. Participants then judged whether the data was informative and chose how much to invest. By contrast, control participants always received the data for free.

I'll spare readers from any further commentary on the thrilling world of experimental-design. Let's look at the findings.

What can we take away from this?

The authors documented three main findings:

1. **Paying distorts beliefs:** Participants who paid for the data were 11% more likely to believe the information was useful, even if that was objectively not the case.
2. **Paying impairs performance:** Participants who paid for the data placed 31% more emphasis on it, and end up presenting with 14% larger forecast errors.
3. **Paying changes behaviour:** Paying was found to trigger a sunk-cost effect where people invested 7% more than they otherwise would, simply because they paid for the data. The burden fell disproportionately on the least sophisticated investors with lower financial literacy, who invested almost 15% more in the same situation.

Whilst this was a very study-specific simulation, I think it points to something much broader. This isn't just a trader's problem. Everyday investors are exposed to the same informational pressures, whether it's a paid newsletter, a premium research platform or a guru behind a paywall. The mechanism can be identical. Once you've paid for information, you're far more likely to believe it and consequently act on it, even if the signal is weak.

I believe it's healthy to maintain a suspicion of anything that comes wrapped in an air of prestige and an excessive price tag. We're all looking to carve out an investment edge, but sometimes the hunt for that edge can end up doing more harm than good. The more we invest in acquiring information, the more determined we become to believe it's correct, even when the evidence points the other way.

Of course, I realise the irony here. I work for an organisation that collects a portion of revenue through producing research, insights and analysis. Here lies the beauty of editorial independence. Ultimately, our investment goals are best served by good judgement, not by the price tag attached to the data we consume. Whatever information you choose to rely on, make sure it has earned its influence over your decisions.

A note: I've tried my best to condense a 40-page study into something that fits within the limits of human attention. If you'd prefer the unabridged version (footnotes, regressions and all), the full paper awaits [here](#).

Simonelle Mody

Also in this week's edition...

The defining challenge of retirement is about creating sustainable income. **Mark LaMonica** [ranks three popular retirement strategies](#).

Are we worse off than previous generations? **Shane Oliver** from **AMP** examines the data to determine [whether life was really better in the good old days](#).

Retirement on the horizon? **Dwayne Fernandes** from **Principal Edge** shares [four key questions](#) to ask yourself at the start of the financial year.

The companies building transformative tech rarely capture the greatest long-term value. **Joe Davis**, Chief Economist at **Vanguard**, discusses his thoughts on [who gains in an AI supercharged economy](#).

Panic over the Division 296 cost base reset inspired **Trevor Schmid** to model [what the million-dollar reset is actually worth](#).

Traditional valuation metrics used to forecast returns may have been misread. **Larry Swedroe** explores the [implications for investors](#).

Joe Wiggins [refutes the idea](#) that fund managers should invest client money exactly as they invest their own.

This week's white paper is **World Gold Council's** [mid-year outlook](#).

Ranking three common retirement strategies

Mark LaMonica CFA

The more your money works for you, the less you have to work for money.

- Idowu Koyenikan

I have a mate who is considering retiring early. He has outlined twenty different scenarios to solve the universal problem of retirement – how do you convert a pool of assets into cash to pay for life.

Most investing commentary is focused on accumulating assets. This is the fun part of investing because maybe – just maybe – that next share you buy will be the one that makes all your problems disappear.

Less attention is paid to spending money in retirement. This is a far more complex problem to solve and involves a degree of nuance which isn't required in the typical 'get rich quick' pitch.

I've outlined three common approaches retirees use to convert assets to income and scored them based on how they address three key financial issues in retirement:

1. **Longevity protection** is the attempt to plan for a retirement of an unknown length. Earning a high enough return to continue to support withdrawals over the long-term is the key to addressing longevity risk.
2. **Sequencing risk** exists because the spending needs during retirement often necessitates the selling of assets in down markets. Forced to sell low retirees are unable to fully take advantage of market recoveries. The central issue is not the market drop as they periodically occur over time. The real issue is the need to sell during these downturns.
3. **Lifetime spending** refers to maximizing spending during retirement to support the best life possible.

Set withdrawal rate / 4% rule

This is the classic approach to converting assets to income. There are several different variations to this strategy, but the basic premise is a withdrawal rate is used in the first year of retirement and subsequently the dollar amount of the withdrawal is increased in line with inflation.

The theory states that portfolios are liquidated proportionally – if the withdrawal rate is 4% then 4% of each investment is sold. This may or may not reflect reality.

For an investor in a pre-mixed industry super fund there may not be an opportunity to pick what to sell. An investor with a self-managed super fund can pick what to sell. Regardless, selecting assets doesn't work in the modeling which is used to test the effectiveness of withdrawal rates.

I've gone through the modeling in detail in [my article on Monte Carlo simulations](#). A Monte Carlo simulation tests a withdrawal rate against sequencing and longevity risk scenarios based on different returns and inflation.

I will assume a 4% withdrawal rate is used as that is the rule of thumb. I will also assume that the rule is strictly followed.

Longevity protection – 5 out of 10

The baseline scenario I ran in my previous article gave a 78.37% chance of not running out of money in a 30-year retirement. This was a 70 / 30 portfolio split between shares and bonds.

This isn't a great outcome and given the lack of knowledge about the mechanics of the 4% rule many people are using it for far longer retirements than intended. Strict adherence to the rule puts a retiree at risk if the market performs poorly, if inflation is high and / or if retirements are lengthy. As a result, I've given the 4% rule a 5 out of 10 score in addressing longevity risk.

Sequencing risk protection – 3 out of 10

A simple scenario illustrates the pitfalls of strictly following the 4% rule when faced with a severe bear market early in retirement.

A retiree with a diversified portfolio of shares, bonds and cash would see outsized losses in a significant bear market. Common sense suggests a retiree shouldn't sell low from beaten down shares and instead should spend proceeds from cash and bond allocations. But selling a portion of every asset is what the 4% rule prescribes.

This approach meaningfully increases the impact of sequencing risk. In the modeling I did in my previous article there was only a 1.63% probability of not running out of money if the worst 10 years of historical returns happened early in retirement.

Given this risk, I've given the 4% rule a score of 3 out of 10 in addressing sequencing risk.

Levels of lifetime spending – 3 out of 10

The goal of retirement is to maximise lifetime spending while not running out of money. Other goals like leaving a bequest may be a factor in decision making. This is a difficult balancing act.

In a scenario with low inflation, strong returns early in retirement, and a normal lifespan the 4% rule dictates a level of spending far below what a portfolio could otherwise support.

This is by design as the 4% rule is intended to protect against worst case scenarios. If no adjustments are made the rule results in a surplus of funds in most scenarios.

As a result, I've given the 4% rule a score of 3 out of 10.

Just spend income

This concept is straightforward. A retiree amasses a pool of assets that generates income which is used to pay for life. Spending fluctuates based on the level of income.

The advantage of this approach is that a retiree won't ever run out of money which accomplishes the baseline goal of retirement.

However, this comes with challenges. More assets are generally required to support a similar level of spending as a set withdrawal strategy. This is somewhat mitigated in Australia given historically high dividends and franking credits. The overall level of retirement savings needed will depend on asset allocation.

Another challenge is keeping up with inflation. If this doesn't happen a retiree's real – or inflation adjusted – spending will drop. Historical data illustrates this problem.

Between the start of 2016 and the end of 2025, the Vanguard Australian Shares ETF (ASX: VAS) delivered total income growth of 10.72%. This growth meaningfully trailed cumulative inflation of 36% meaning real spending for a retiree would fall by just under 23%.

A final challenge is dealing with fluctuations in annual income. Historically the volatility of dividends is significantly less than share price volatility. But there have been instances like the pandemic when dividends dropped significantly.

Longevity protection – 10 out of 10

If a retiree only spends income there is no possibility of running out of money. You can't get much better than that for longevity protection – hence, the score of 10 out of 10.

Sequencing risk protection – 10 out of 10

The order of returns is irrelevant for an income strategy as a retiree simply spends available income even if it drops significantly in an event like the pandemic. Once again, a score of 10 out of 10.

Levels of lifetime spending – 1 out of 10

If a retiree only spends income their portfolio would continue to grow throughout retirement. However, growth would be at a slower rate than published historical levels as income makes up a meaningful portion of total returns.

Dividends made up approximately 55% of ASX 300 returns over the last decade and about 12% of S&P 500 returns. For bonds held to maturity and cash, returns are entirely made up of income.

Dying with significant assets may fulfill other goals such as leaving a bequest but levels of lifetime spending are lower than possible. As a result, I've given a score of 1 out of 10.

Bucket strategy

The bucket strategy divides assets into different buckets and allows the retiree to pick what to sell based on market conditions. A bucket strategy differs significantly from the first two rules-based approaches as a retiree will have to make a series of decisions over the course of retirement.

The bucket strategy relies on the judgement and decision making of the retiree. More skill is needed to set-up and execute this approach.

The typical bucket strategy will involve three sets of assets – short-term assets primarily consisting of cash, medium term assets consisting of bonds and income producing shares, and a long-term bucket consisting of growth shares.

The short-term bucket is used to support spending and is re-filled with income and asset sales from the other buckets. In times of extreme market stress the retiree may forgo or limit asset sales and spend down cash which can be replenished later.

The bucket strategy is not a spending rule and instead is a portfolio construction and management approach. I'm going to assume that flexibility is also used with spending and a retiree can start out with a spending level of 5% to 5.50% (more on this later).

Longevity protection – 7 out of 10

Longevity protection and sequencing risk are related. Given lower sequencing risk and the flexibility of spending the bucket strategy provides more longevity protection than a set withdrawal approach.

As a result, I've scored the bucket strategy 7 out of 10.

Sequencing risk – 7 out of 10

The bucket strategy is designed to protect against sequencing risk. If a retiree has the misfortune of facing a bear market early in retirement then cash can be used to support withdrawals while markets recover.

This eliminates the need to sell shares in a bear market which reduces the impact of sequencing risk.

During the average bear market it takes 27 months for prices to reach the same level as prior to the crash. In particularly harsh bear markets recovery has taken up to 5 years.

A judgement call needs to be made on how many years of living expenses to hold in cash. The more cash held, the lower the sequencing risk. But there is a trade-off as more cash results in lower long-term returns. Lower returns reduce longevity protection.

No matter how much cash is held, the bucket strategy is more effective in dealing with sequencing risk than a set withdrawal method so I've scored it a 7 out of 10.

Levels of lifetime spending – 7 out of 10

Modeling shows the bucket strategy can support a higher level of initial withdrawals given the elimination or reduction of sequencing risk. Like all modeling there are several assumptions involved.

Unlike the rules-based approaches many of those assumptions are reliant on a retiree making good decisions. Given the higher initial spending I've given a score of 7 out of 10.

Final thoughts

This exercise has demonstrated the need for nuance in a retirement strategy. Any strategy should be based on the personal circumstances of each retiree.

Owning your own home outright, the percentage of spending dedicated to wants vs needs, and other sources of retirement income like the age pension will all factor into the approach each person should take.

Rules based strategies and rules of thumb are unlikely to suit the needs of any individual retiree. Hybrid strategies taking elements of each of the three approaches I've outlined are likely to result in better outcomes.

Like any approach to personal finances a strategy should suit your individual circumstances and temperament. As always, knowledge is the key to successfully navigating evolving market conditions over the course of a long retirement.

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

Was life really better in the good old days?

Shane Oliver

Key points

- Angst about economic conditions has been running high in recent times. This is evident in chronically low consumer confidence readings and a downtrend in measures of happiness. It's also arguably evident in the rise of populist parties globally and more recently in Australia.
- There is no doubt that some things were better a generation or two ago. Cheaper housing stands out. But most indicators are far superior today.
- That said there is no denying that "cost-of-living pressures" have been a problem in recent years and a key driver behind this has been poor productivity growth. Unfortunately, there are no quick and easy fixes to this.

Lately, there seems to be a heightened level of angst that economic conditions are getting harder and that the two-party political system – and maybe democracy too – is failing voters. There seems to be a hankering for times past that some feels were better. There is no doubt that "cost-of-living" issues have become real in the post-pandemic years. This has been associated with relatively stagnant real household disposable income and poor productivity growth over the last decade. Unfortunately, there are no quick fixes to this. Rather getting productivity up requires hard-nosed economic reforms that may take years to bear fruit. But while the Australian economy does have some real challenges to address, it is worth keeping things in perspective. This note looks at how economic conditions in Australia have changed over the last half century.

Some things are worse today

The table below provides a brief comparison of economic indicators where conditions were better 25 and 50 years ago. These periods were chosen because the 1970s broadly coincided with baby boomers entering the workforce, while Millennials entered in the 2000s and Gen Z in the 2020s.

The bad news - now and then

	1975	2000	Latest
Consumer sentiment, index level	105.0	102.2	80.6
Average home price to wage ratio	5.5	6.4	14.4
Years to save for a home deposit	<4	5.8	11
Home ownership rate, %	62.7	66	63
Income tax, % of gross household income	11.3	18.7	21.6

**decade average. Source: ABS, Westpac/Melbourne Institute, Cotality, AMP*

The bad news is that consumer sentiment seems to be stuck around much lower levels, despite the absence of really high unemployment as seen in the recessions of the 1980s and 1990s. And associated with this over the last 20 years happiness has been trending down. From the next chart it can be seen that the trend in both has been down since around 2015, not just the last few years.

We also paid less tax as a share of our income back then. But housing is the big one - today the ratio of home prices to incomes is way above what it was 25 and 50 years ago, and it takes far longer to save for a deposit. Associated with this has been a down trend in the home ownership rate since it's mid-1960s peak. And this arguably goes a big way to explain why younger generations may be feeling less happy today as getting a home is seen as too hard.

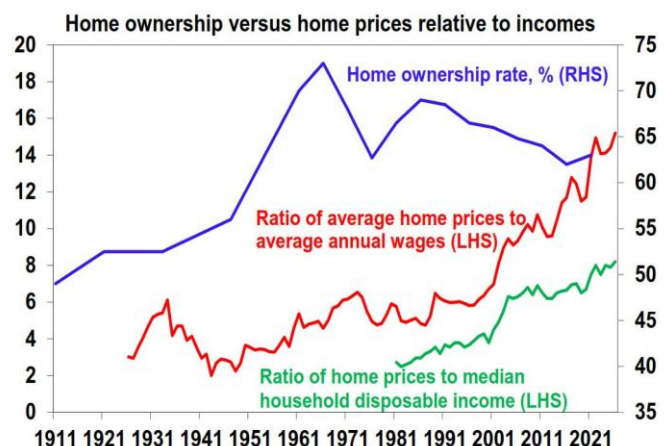
Of course, in the past things were also less regulated so we may have felt freer, there was a greater sense of community, there was less choice (i.e. four TV channels in the 1960s and 70s versus lots of streaming and TV options now), so less decisions to make, which resulted in less pressure. And there was no social media to bully us, rile us up or create a perpetual sense of FOMO (and in many cases relieve us of our money - though small town gossip was probably worse back then!).

But many economic indicators are far better now

Against this, virtually all other economic indicators are much better today.



Source: World Happiness Report, Bloomberg, ABS, Westpac-Melbourne Institute, AMP



Note home ownership data is only available from 5 yearly census. Source ABS, Cotality, AMP

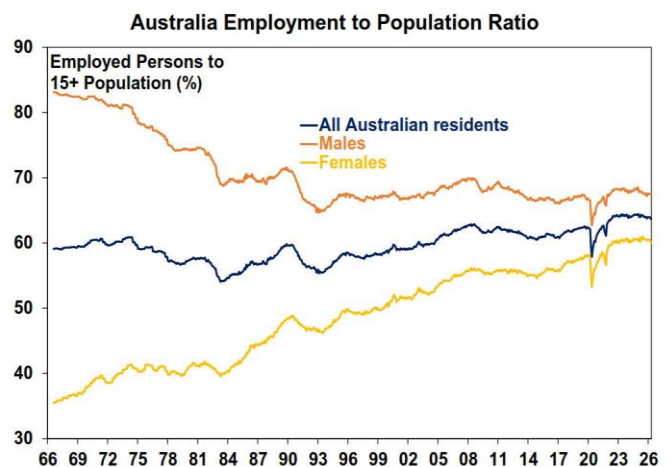
The good news – now and then

	1975	2000	Latest
Per person GDP, real dollars	11,283	18,540	24,917
Real net household disp income per person	\$30,602	\$40,803	\$61,065
Inflation rate, %	15.3/9.8*	15.3	4.0
Unemployment rate, %	5.4/3.9*	6.3	4.4
Employment to population, %	59.3	59.1	63.7
Female participation rate, %	44.8	54.4	62.8
Gender pay gap (full time), %	~35	15	12
University participation, 18-19 yrs, %	~20		40
Life expectancy, males, years	69.4	76.6	81.1
Life expectancy, females, years	76.4	82	85.1
Govt spending on health, aged, disability & welfare, % GDP	7.0	12.5	15.0
Overseas holidays, per 100 people, yr	6.3	17.9	45.1
Motor vehicles, per person	0.49	0.65	0.81
Road deaths per 100,000/yr	26.6	9.5	4.8
Homicides per 100,000/yr	~1.9 ^	1.8	1.0
Suicide rate per 100,000/yr	12.6	12.4	11.8
Foreign born population, %	19.9	23	32
Foreign born population from UK & Europe, %	17.0	12.3	8

* decade average. ^ homicide rate then peaked at 2.4 in 1988.

Source: ABS, PBO, AIC, BITRE, AIHW, AMP

In recent decades the economic cycle has been milder with less severe recessions, generally lower unemployment and generally lower inflation. Today we are far better off materially: real household income is double what it was 50 years ago, there is a greater share of the population in employment (~64% versus 60% in the 70s, reflecting more jobs), and the female participation in the workforce has risen (helped by better education, childcare and attitudes).



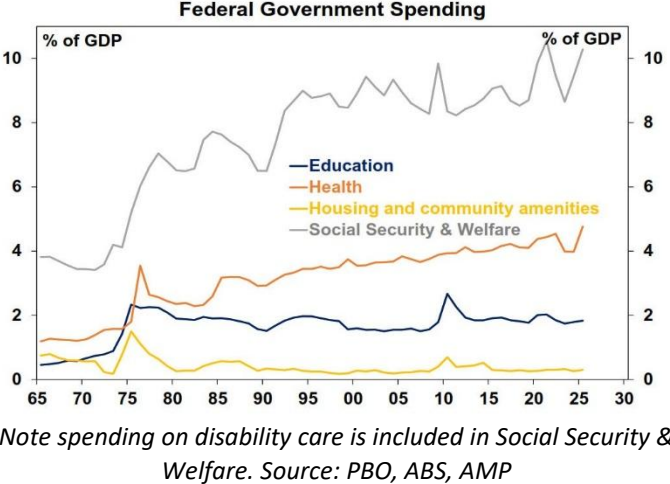
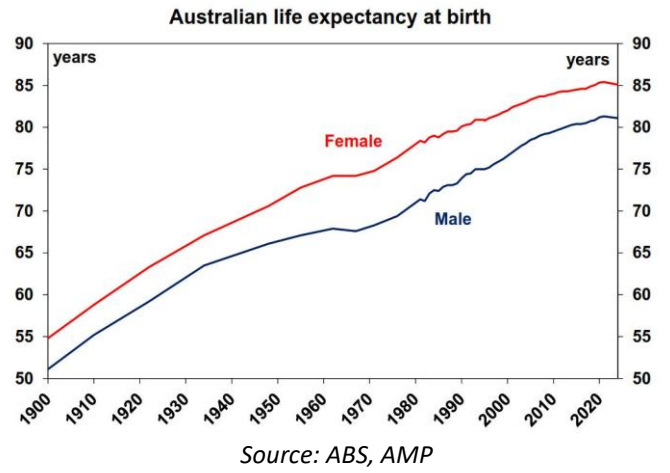
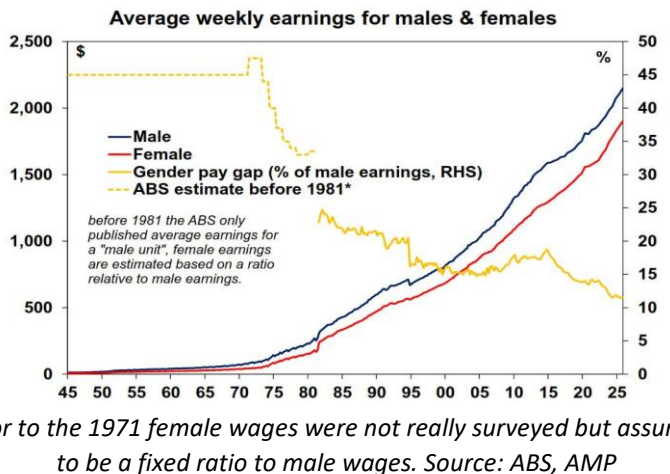
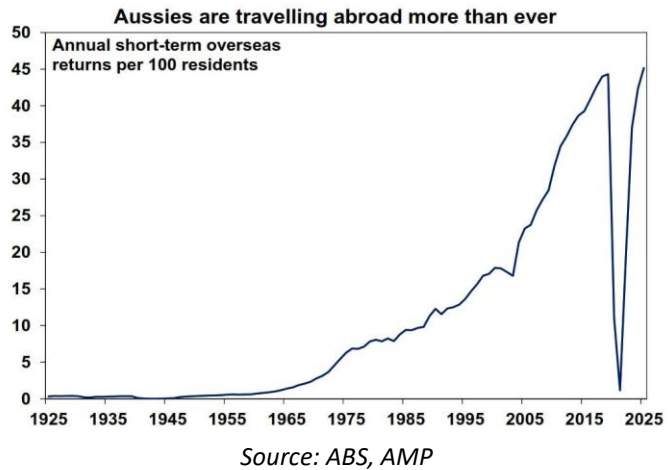
Source: ABS, AMP

With this wealth has come more discretionary spending power to devote to things like overseas holidays – 50 years ago, an average Australian had an overseas holiday once every 16 years, now it’s just a bit less than once every two years. And more gadgets like cars – where there is now nearly one for every two people – and household appliances like huge flatscreen TVs. And multiple cafes per suburb with endless choice of coffee and food compared to the burgers and instant coffee of a few generations ago.

But it’s also a far more equitable society. For example, female participation in the workforce has surged from being way below that of men, more girls now go on to a university education than boys and the gender pay gap has fallen sharply (albeit there is still a way to go). It’s hard to look back a generation or two ago and say things were great when opportunities for half the population (i.e. women) were way below those of the other half. At this point we here the manosphere crowd saying how guys are now discriminated against...and think come on guys “get a grip”! – don’t you realise that manosphere influencers are just telling you what you want to hear so they can get a buck out of you!

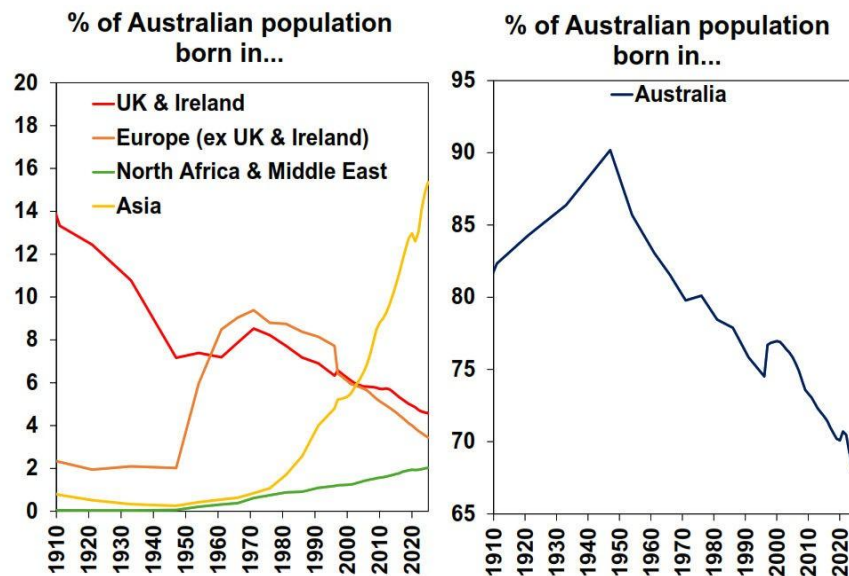
And with this surge in income and wealth has come huge medical advances which means we are living longer, active lives. (Of course, this is not to say there are not issues with obesity and too much sugar which may be starting to take a toll in the last few years!)

While we pay more taxes as a share of income, and more is demanded of Government, the social safety net is bigger than ever. It’s seen explosive



growth in the provision of spending on welfare, health, aged and disability care – which have each more than doubled as a share of GDP. And Government is mostly doing a good job of protecting us from ourselves and each other, with for instance, a collapse in road death and homicide rates.

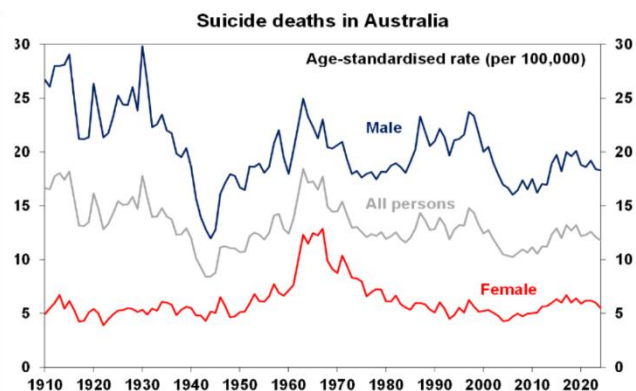
Australia is now also a far more diverse country with far more born overseas and less of those that are from a UK/European background. This has led to a richer society (e.g. more restaurants to choose from), a more innovative society and relief from the pressures of an aging population and labour shortages.



Source: ABS, AMP

Of course, immigration is once again a hot topic – it has been periodically for as long as I can remember – but for most this seems to reflect a concern about poor housing affordability.

And finally, despite all the talk to the contrary, it's still too high but the suicide rate is around where it was 25 and 50 years ago and is in fact below its level in the pre-WW2 years, the 1960s and the late 1980-90s.



Source: AIHW, AMP

So why do people still feel miserable even with all these economic achievements?

Simply because most people nowadays weren't around back then! Around 65% of the population was born after 1975, and 78% were either not born or too young in the 1970s to remember it clearly, so much of the hardship discussed in this note sits outside most people's lived experience. And recency bias means that even for those who were around "back then", the tougher times they might have had can be hard to recall after three decades of economic growth and virtually no recessions in Australia.

Recency bias and higher baseline expectations also make comparisons with 25 or 50 years ago less meaningful. At the same time, things have indeed gotten a bit worse in the last 5 years.

For example, health outcomes have improved over the long term, helped by medical advances, increased government health spending and better access to health care with e.g. higher bulk billing rates. But bulk billing fell sharply from 2022 until late last year as medical goods and services costs rose, with [some surveys](#) suggesting many people delayed medical appointments because of affordability. That marks a clear regression from 2020-2022, when the average bulk billing rate was 89%.

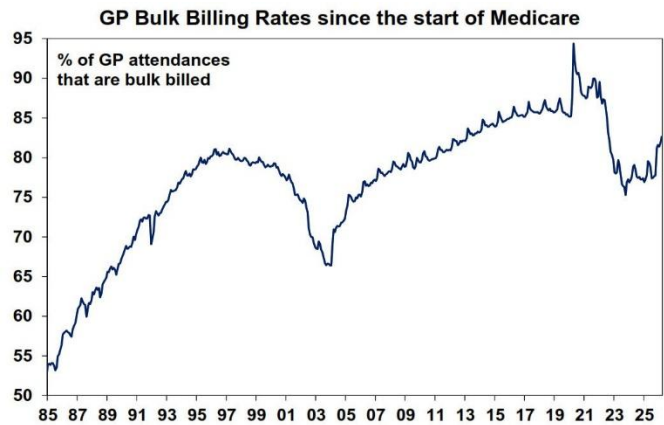
In addition, real wages have gone up significantly over the last 25 and 50 years, but the average wage earner (if they have not upskilled or changed jobs) has seen their pay lag inflation since 2021.

The root core of this is low productivity growth. Coincidentally, the structural decline in happiness in 2015 started around the same time productivity started stagnating.

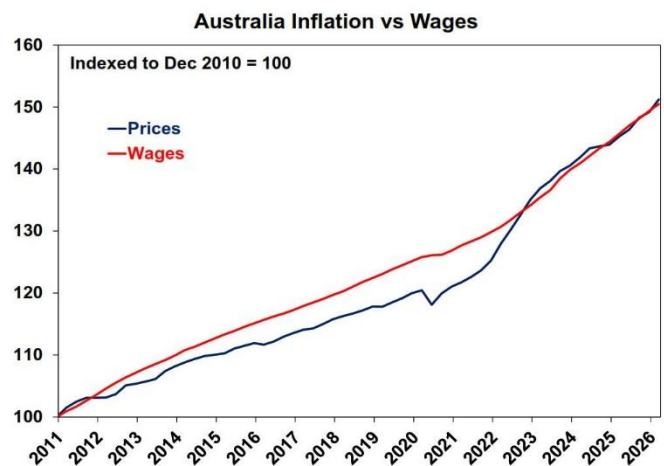
Concluding comments

None of this analysis is to deny that many are struggling with “cost of living” issues and that there is a wider malaise of dissatisfaction. Government’ need to do more to boost productivity and hence grow living standards and avoid the delusion that the answer is even more government. But we suspect a big part of the problem is poor housing affordability which leads to a growing wealth gap between the haves and the have nots – fix that with a fundamental rebalancing of underlying housing supply and demand, and a lot of the angst will likely fade. This likely involves getting the balance right on immigration but not slashing it such that it just leads to labour shortages and the economy struggling with an aging population.

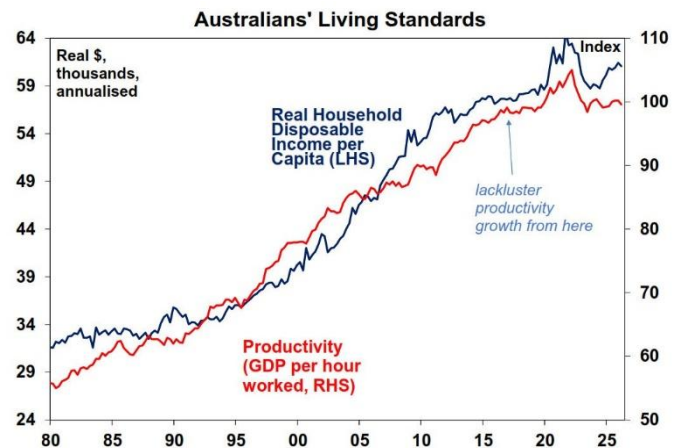
Finally, we need to recognise that part of the malaise associated with poor happiness and confidence reflects a problem of success. The rise in affluence has led to higher expectations than the economy can at times deliver upon. And social media – itself a product of technological success – may be contributing to the malaise via its focus on grievance and quick hits. Finding better ways to live with this success – and recognise more “things” won’t necessarily make us happier - is probably key.



Source: AIHW, AMP



Source: ABS, AMP



Source: ABS, AMP

Dr Shane Oliver is Head of Investment Strategy and Chief Economist at [AMP](#). Additional contributors: Diana Mousina, Deputy Chief Economist and My Bui, Economist. This article has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs.

Australia has saved \$4.5 trillion for retirement. Here's what matters more

Dwayne Fernandes

Most Australians approaching retirement know their super balance to the dollar. Fewer have worked out what that balance actually needs to do: provide an income, sustain it for twenty or thirty years, and hold up if markets fall in the first few years of drawing it down.

For years, the industry's answer has been a bigger number. Contribute more, watch the balance grow, and assume that alone makes retirement secure. To an extent, it has worked. Australian superannuation assets are approaching \$4.5 trillion, one of the largest retirement systems in the world.

But a balance is not a plan. It is a starting point. The real work is converting that sum into something that functions as income: money that survives a market downturn, adjusts as spending needs shift, and still covers the costs that tend to rise later in life. None of that is answered by the total on a statement.

The Retirement Income Covenant has pushed super funds to take this seriously, to think about members' income needs rather than their account balances alone. But the harder questions are not ones a fund can answer. They are personal, shaped by how you want to live and what you can tolerate if things don't go to plan, and many people have never sat down and worked through them properly.

At the start of a new financial year, that's worth doing. In my experience, four questions usually bring it into focus.

1. What stage of retirement am I actually funding?

Retirement used to follow three relatively predictable stages: an active "go-go" phase of travel and spending in the early years, a steadier "slow-go" phase as pace naturally slows, and a "no-go" period later on when spending shifts towards health and care costs.

That model is now breaking down. People are working longer and stepping down from responsibilities more gradually, blurring those stages rather than following a clean sequence.

Good planning therefore starts by identifying three things early: major capital expenses on the horizon, regular cash flow needs, and your target cash buffer for those earlier years.

Early retirement tends to be the highest-spending stage of all: travel, renovations, family gifts. That buffer sitting outside the portfolio is what funds it without disrupting the income being generated elsewhere.

Later retirement brings a different challenge, dominated by medical and ongoing care costs, which can be the hardest stage to forecast. Even so, some form of contingency deserves a place in every long-term plan.

Knowing which stage you're funding influences every other decision, from how much liquidity you need to how much investment risk remains appropriate.

2. What income needs to be secure, and what can remain flexible?

Retirees are often told to seek certainty. But locking down every dollar can create a different risk: not having enough growth to support your later years of retirement.

Interest rates move, growth assets face volatility, and inflation is quietly eroding purchasing power along the way.

None of these forces are within an investor's control. But what matters is knowing which expenses need to be met regardless, and which can be adjusted if a particular year does not go to plan.

For some retirees, the non-negotiables will be relatively modest: everyday living costs, insurance and healthcare. For others, they may also include rent, debt repayments or ongoing family support. Putting a number around those commitments can help clarify how much dependable income is needed before taking investment risk with the rest of the portfolio.

That does not necessarily mean retreating too far into cash. Cash can provide reassurance, but relying on it too heavily may sacrifice the growth needed to keep pace with inflation over a retirement that could last several decades. A diversified mix of assets can give retirees both a more reliable base for essential spending and the flexibility to fund the parts of life that can change from year to year.

How conservative that mix should be will differ from person to person. Some people will accept more market movement in exchange for long-term growth; others will place a higher value on certainty and peace of mind. Those trade-offs should be made deliberately, not discovered in the middle of a market sell-off.

3. What happens if markets fall?

Imagine retiring just before a significant market correction. If you're forced to sell investments to fund your living expenses while prices are down, those losses lock in permanently - there's no chance for that money to recover once it's gone. This is called sequencing risk, and it does the most damage in the first few years of retirement, before a portfolio has had time to bounce back.

It also explains why yield alone can be a misleading way to judge how a portfolio is performing. Income paid out can look steady even while the underlying capital is falling in value. If capital is being eroded faster than income is being generated, the portfolio is shrinking, not sustaining itself, no matter how healthy the yield appears. Total return, the combination of income and capital growth, is the figure that actually shows whether a portfolio can keep supporting an income over time.

One way to manage this risk is to hold enough cash, often around two years of living expenses, so a market fall doesn't force the sale of growth assets while they're down. Structured well, that buffer helps protect both the income needed now and the capital that has to keep working for years to come.

4. Is my wealth still held in the right places?

Wealth is rarely held in one place. Over time, households accumulate super, property, trusts, companies and investments in personal names, usually for good reasons at the time.

Those arrangements can work well while the objective is to earn, reinvest and build wealth.

But once you start drawing an income instead, you need different things from the same structures: easy access to capital, tax that isn't eaten up along the way, wealth split sensibly between partners, and a clear path for what happens to it when you're gone.

Legislative risk makes that harder to ignore. [Division 296](#), applying additional tax to earnings on super balances above \$3 million, took effect from 1 July 2026, and the [May Budget](#) added [tighter rules on negative gearing](#) for established property bought after budget night, a lower capital gains discount from 1 July 2027, and a minimum tax on discretionary trusts from 1 July 2028. The same asset, held the same way, can produce a very different after-tax result once the rules around it change.

Not every policy change calls for a restructure of the family's affairs. But with several measures now taking effect, and others imminent, the new financial year is a useful moment to test an assumption many families have carried for years: that the structures which built their wealth will also be the best ones to fund retirement and transfer it to the next generation.

The real measure of retirement success

Australia has built a \$4.5 trillion superannuation pool - a remarkable national achievement. But retirement planning cannot prevent every market fall, policy shift or unexpected expense. Its purpose is to ensure those events do not come to define a retirement a person has spent decades building.

A successful retirement is one in which people can spend with confidence, absorb setbacks without panic and retain control over the choices that shape the years ahead.

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Who gains in an AI-supercharged economy?

Joe Davis Ph.D.

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At Vanguard, we anticipate 3% U.S. GDP growth in 2027, an estimate that is noticeably higher than other professional forecasts, implying continued strong support for risk assets. Such growth will not represent incremental improvements, but rather a fundamental shift in the economy's growth

trajectory. Following a data-rich study of current AI capabilities and how the technology compares to other game-changing technologies of the past, we foresee an economic sea change.

In fact, AI is already boosting economic activity, even if it may be another year or two before we know for sure whether it will be as transformative an economic force as the personal computer. For our forecast to prove true, AI will need to move past its current automation phase, where it simply replaces human tasks, through an augmentation phase, where it makes workers better at their jobs, and eventually enables products, services, and industries that we have not yet envisioned. Today's focus is on automation, but it is the realisation of these last two phases that will determine whether AI ever becomes a general-purpose technology.

Before electricity became economically viable, few people imagined electric streetcars, movie theatres, or household appliances. A similar expectation that AI will mature into a general-purpose technology makes us sanguine about the prospects for the labour market. Concerns about job displacement are understandable, but doomsayers who envision a dystopia of sidelined prime-age workers tend not to think about the jobs that have yet to be created.

Nor do they give enough attention to the higher incomes (and spending) that would come from workers boosting their productivity tenfold. Just ask accountants how their lives changed after computer software transformed their field. Their output increased dramatically. Disruption need not only mean automation. Moreover, fully realised AI would unlock productivity gains that would compensate for—and likely exceed—the headwinds of aging populations, declining fertility, and reduced immigration.

Where we are in the cycle

Still, the journey from AI investment to widespread productivity enhancements will unfold over years, not quarters. (We can look to 1997, during the internet buildout, for a historical parallel.) The current investment phase has at least a year or two to run, despite its eye-watering scale to date. Deep-pocketed AI hyperscalers appear capable of following through on their historic capital commitments, and companies are deploying AI tools in earnest.

Markets, however, have raced ahead of economic reality. Equity valuations, particularly for large-cap U.S. technology companies, already assume much of AI's potential upside. For the next year or two, strong earnings growth from AI-enabling investment can perhaps justify these valuations and may well drive markets even higher. But that's a near-term phenomenon. Over longer horizons, the mathematics of investing tend to shift, especially during periods of rapid technological change.

The coming rotation

History offers a clear lesson here. The companies building transformative technologies rarely capture the greatest long-term value. Instead, those benefits accrue to the users. Electricity created more wealth for manufacturers that could run assembly lines around the clock than for power utilities. The automobile enriched suburban developers and retailers more than the automakers themselves.

AI may well reproduce this pattern. The current buildout phase—dominated by hyperscalers, chip makers, and foundation-model developers—will give way to a consumption phase where end users across industries derive the greatest benefits. Such businesses are currently trading at value-oriented multiples, and many are outside the United States in service-oriented economies with aging populations, where more productive workforces will be a blessing.

What types of companies may benefit? Health-care providers will have ample opportunity to automate administrative tasks and enhance diagnostic accuracy. Financial services firms will be in a position to deliver even more personalised advice at an even lower cost. Business services companies could augment human expertise with AI-powered analysis. Such companies are starting to explore where they can automate tasks, and they will reap the rewards if AI eventually augments workers' skills and fulfills its promise.

What to watch

Of course, we can't say with certainty that AI will positively transform the economy. But there will be clues: younger workers entering the labour force with AI-enhanced skills; startup creation accelerating outside the technology sector; and more frequent, genuine discoveries (such as a breakthrough in medicine) from AI-assisted research. As these patterns emerge, we will likely be seeing AI's economic transformation in its infancy. It will look much like the path that electricity and the PC took.

Positioning for the transition

The opportunity that is beginning to emerge lies in recognising that markets may be correctly assessing AI's economic potential while incorrectly pricing where the benefits will accrue over the full cycle. Value-oriented U.S. equities, non-U.S. developed markets, and high-quality fixed income all offer compelling risk-return profiles—defensive if AI falters, opportunistic if it succeeds—over the coming five to ten years.

The point is not to abandon technology exposure or try to time the market. It is to recognise that in an AI-transformed world, we will have moved from the current phase, where AI builders dominate, to one where AI users should increasingly command attention. It happens every time a great technology transforms the world. For long-term investors, this future transition represents both a risk to manage in growth-heavy portfolios, and an opportunity to seize ahead of the AI revolution's next phase.

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Div 296's million-dollar reset worth \$25,000

Trevor Schmid

Since the \$3 million super tax became law in March, one word has carried the industry's entire message: 'protect'. Make the cost base reset election and you 'protect' the gains your fund built before July. Miss it and decades of growth are 'exposed'. The word worked. Adviser notes spent June urging trustees to commission valuations before the deadline, and pointing out that the only way to keep an asset out of the election was to sell it first. But the arithmetic under the slogan says something quieter: for a typical affected member, 'protecting' \$1 million of gains is worth about \$25,000. Real money. Also two and a half cents in the dollar, arriving years from now, and only if you are still over the threshold when you finally sell.

The panic also got the calendar wrong. The date that mattered on 30 June was the valuation, not the decision. The election itself is made on an approved form any time up to the due date of the fund's 2026-27 annual return, so trustees have the better part of a year to choose, working from a number that is now fixed. The photograph has been taken. Whether to hand it to the tax office is still an open question, and this article is the arithmetic for answering it.

What Division 296 actually taxes

[Division 296](#) took effect on 1 July. It adds 15% tax on the share of a member's super earnings attributable to the portion of their total super balance above \$3 million, with a further 10% above \$10 million. Three design details do all the work in what follows.

First, it taxes realised earnings only: dividends, interest, rent, and capital gains when assets are actually sold. Paper movements no longer count, which is the concession that made the final law palatable. Second, capital gains keep the one-third discount for assets held longer than 12 months, so at most two-thirds of any gain enters the calculation. Third, and least understood, only the proportion of earnings matching the proportion of the balance above the threshold is taxed. A member with \$4 million has a quarter of their balance over the line, so a quarter of their earnings wear the extra 15%. Pension phase does not help; earnings that are exempt from ordinary fund tax are counted back in.

Multiply the three together and the most a dollar of capital gain can cost in Division 296 tax is 10 cents, rising to 16.7 cents only for the slice of a balance beyond \$10 million; a ceiling approached only by very large balances. On the way down, the proportion shrinks it quickly.

The reset, in cents per dollar

The [transitional election](#) lets an SMSF (and other small funds) treat the market value of every asset it held directly on 30 June 2026 as a fresh cost base, for Division 296 purposes only. Ordinary capital gains tax is untouched. Gains accrued before this month then never enter Division 296 earnings; only growth from here does. The election is made at fund level, covers every asset or none, and once made cannot be unwound. So, what is a quarantined dollar of gain actually worth? The saving is 15% of two-thirds of the proportion over the threshold. In cents:

Balance in year of sale	Proportion above \$3 million	Div 296 saved per \$1 of gain
\$3.0 million	0%	0.0c
\$3.5 million	14%	1.4c
\$4.0 million	25%	2.5c
\$5.0 million	40%	4.0c
\$8.0 million	63%	6.3c

The value of quarantining one dollar of pre-July 2026 capital gain, for an asset held more than 12 months. Source: author's calculations.

Now a worked example. A single-member fund with a \$4 million balance holds a share portfolio bought for \$600,000 and worth \$1.6 million on 30 June: an accrued gain of \$1 million. It also holds an unlisted investment bought for \$500,000 and now worth \$400,000. Elect, and the share gain is quarantined; at a 25% proportion that saves \$25,000 of Division 296 tax in the eventual year of sale. But every asset means every asset. The loss position resets too, its cost base falling to \$400,000, so if it merely climbs back to what was paid for it, \$100,000 of recovery is counted as new gain, costing up to \$2,500. Net benefit: about \$22,500. And if the sale is a decade away, nearer \$12,600 in today's dollars at a 6% discount rate.

	Repricing at 30 June 2026	Div 296 effect at sale
Share portfolio	Gain of \$1,000,000 quarantined	Saves \$25,000
Unlisted holding	Cost base lowered by \$100,000	Costs up to \$2,500
Net benefit (nominal)		\$22,500
Present value (sale in year 10, at 6%)		\$12,600

A single-member fund electing the reset, assuming a \$4 million balance in the year of sale and both assets held more than 12 months. Source: author's calculations.

Notice where the \$1 million sits in that table: the middle column, never the last. The reset does not protect gains. It removes a slice of a tax on a discounted fraction of them.

The honest case for electing anyway

For most funds sitting on net gains, consider electing. The election costs a form, the 30 June valuation was needed for the fund's accounts regardless, and the option runs one way: fail to opt in by the return's due date and that door closes for good. A free option with an irreversible expiry should usually be taken. That asymmetry, not fee-hunting, is why the adviser notes pushed so hard: recommending against a free irrevocable option is the kind of call nobody wants to defend later. And for the funds the tax was aimed at, the cents add up. A \$2 million property gain in an \$8 million balance is roughly \$125,000 of Division 296 tax, which pays for a great deal of paperwork. The cents-in-the-dollar framing sizes the decision. It does not dismiss it.

What it does dismiss is the gymnastics. Selling assets purely to reshape the fund before the photograph, round-trip disposals to crystallise gains (wash sales by another name, and the ATO has a long-standing dislike of those), restructures priced in the thousands to defend tax measured in the hundreds. At a \$3.2 million balance, quarantining \$100,000 of gain is worth \$625. June offered plenty of ways to spend more than that achieving it.

Who actually needs the arithmetic

Members over \$3 million should model the netting, gains against loss positions, and elect calmly inside the year they have. Members under it are being told to elect 'just in case', and the free-option logic supports that, but the trajectory deserves arithmetic rather than fear. The threshold is indexed in \$150,000 steps, and a pension balance drawing 5% while earning 6% grows about 1% a year while the threshold compounds with inflation. The gap widens. Many drawdown funds will never cross the line, and their reset will simply never matter. The genuine 'just in case' cases are younger accumulators with large balances and years of contributions ahead. Members of large APRA-regulated funds have no election to make; their funds receive separate transitional treatment, and there is nothing to do. One caveat throughout: the supporting regulations were still in draft at the time of writing, so administrative details, including exactly how balances are valued, may yet move.

The election is worth making for most funds and worth panicking over for almost none. The photograph was taken on 30 June. Your fund has until its next tax return to decide whether it belongs in the frame.

[Trevor Schmid](#) has more than 20 years' experience across superannuation, financial advice and member education. This article is general information only and does not consider any individual's objectives, financial situation or needs.

The forecasting fix that Wall Street missed

Larry Swedroe

Ask any finance professor what drives stock prices, and the standard answer is discount rates—the expected return investors demand for holding risky assets. When investors become more fearful, they demand a higher return, and prices fall. When optimism returns, the required return drops, and prices rise. This is the backbone of modern asset pricing, most famously articulated by John Cochrane in his [2011 presidential address](#) to the American Finance Association.

If that story is right, then valuation ratios—measures like the price/dividend ratio or the Shiller CAPE (cyclically adjusted price-to-earnings)—should be useful for predicting future returns. When stocks are expensive relative to their dividends or earnings, expected returns should be lower; when they're cheap, expected returns should be higher.

The reality is that, while these ratios are the best predictors we have had, they are not strong predictors in practice. Sebastian Hillenbrand and Odhrain McCarthy, authors of the March 2026 study "[Expected Returns with Cash Flow Trends and Cycles](#)," set out to understand why traditional valuation ratios have uniformly failed to beat the historical mean in US markets.

The key finding: A signal buried in noise

The authors' central insight is deceptively simple. The price/dividend ratio reflects not one thing, but three: the market's expectation of future returns, the long-run trend in cash flow growth, and short-term cycles in cash flows. Standard predictive regressions treat the entire ratio as a return signal—but two-thirds of it is actually noise from the cash flow side.

Think of it this way. If a company's dividend has permanently grown faster—say, because the whole economy is more productive—its stock price will be structurally higher relative to today's dividend. A naive observer looking only at the elevated price/dividend ratio would conclude that future returns must be low. But they'd be wrong: The high ratio reflects higher growth expectations, not lower returns.

This is precisely what has happened over the past century and a half. The authors show that long-run trend dividend growth drifted from roughly 2% per year in the late 1800s to approximately 6% per year by the early 2000s. As the growth trend crept upward, so did valuation ratios—persistently and structurally, not because expected returns were falling, but because the economy's fundamental earning power was rising.

The model: Filtering out the noise

Hillenbrand and McCarthy built a state-space model that jointly estimates three hidden components simultaneously: the permanent trend in cash flow growth, the short-run cyclical component of cash flows, and the true expected return signal. They estimated this using an [extended Kalman filter](#)—a sophisticated statistical technique that updates estimates in real time as new data arrives—applied to 150 years of S&P 500 data from 1871 to 2022.

The payoff is dramatic. Their 'purified' expected return measure—the price/dividend ratio stripped of cash flow trend and cycle contamination—predicts future returns. Out of sample, using only data available at the time of each forecast, the model was significantly better at forecasting future returns (22% R-squared for five-year returns) than traditional valuation ratios. By the rigorous standards of financial forecasting, these are substantial numbers, especially when compared with the negative out-of-sample R-squared for traditional valuation ratios (price/dividend, price/earnings, CAPE).

Critically, the model passes a series of quantitative tests. It not only says returns should be more predictable after purging cash flow noise, but it also predicts exactly how much the predictive coefficient should increase and by how much the out-of-sample performance should improve. The data match these predictions closely, lending confidence that this is a genuine signal rather than data mining.

Rewriting the excess volatility debate

The paper's findings also speak to one of the oldest debates in financial economics: Robert Shiller's 1981 claim that stock prices are "excessively volatile" relative to fundamentals. Shiller argued that dividends simply don't move around enough to justify the swings we see in stock prices, which implies irrational behaviour or time-varying discount rates must be doing the heavy lifting.

Hillenbrand and McCarthy offer a nuanced reconciliation. Both sides of the old debate turn out to be correct—just at different time horizons. At short and medium horizons (up to roughly a decade), discount rate variation does dominate: Roughly 75% of the transitory movements in the price/dividend ratio reflect changing expected returns. Over this horizon, Shiller's excess volatility critique holds.

But zoom out to the full 150-year sample, and the picture inverts. Permanent shifts in trend growth account for 74% of the long-run variation in the price/dividend ratio. The steady secular rise in valuations over the 20th century was not irrational exuberance—it was the rational repricing of an economy whose long-run cash flow growth rate had genuinely and permanently accelerated.

What this means for today's elevated market

One of the most practically important implications of this work concerns the persistent complaint that markets look expensive by historical standards. CAPE ratios, price/dividend ratios, and similar measures have been elevated for decades in the US, leading forecasters to predict poor future returns—predictions that have failed to materialise.

The trend-cycle framework offers an explanation. Traditional predictive models, unable to distinguish higher growth expectations from lower discount rates, systematically underpredicted returns throughout the postwar period. As trend growth drifted higher, the historical average valuation ratio became an increasingly misleading benchmark. A ratio that looks expensive relative to 1950s norms may simply reflect a structurally higher-growth economy—not an overvalued one.

This doesn't mean markets can never be overvalued. It means the right benchmark for so-called normal valuations is itself a moving target, one that needs to be estimated rather than assumed fixed. The authors' purified expected-return signal is stationary by construction—it fluctuates around a stable long-run mean, even as raw valuation ratios drift ever higher—and it is this signal that carries genuine forecasting power.

Five takeaways for investors

1. Don't use raw price/dividend or CAPE ratios as your return forecast.

These ratios embed permanent cash flow trend changes that have nothing to do with future returns. Using them naively as forecasting tools has consistently produced negative out-of-sample accuracy—worse than simply using the historical average return.

2. High valuations don't automatically mean low future returns.

If elevated valuations reflect structurally higher trend growth in the economy—as this paper argues has been the case for the past century—then those high valuations are fundamentally justified. The relevant question is always whether the current valuation is high relative to its growth-adjusted fair value, not its raw historical average.

3. Expected returns are countercyclical—and meaningfully so.

The model's expected return signal spikes during genuine crises (the Great Depression, the stagflation of the 1970s–80s, the 2008 global financial crisis) and compresses during booms. This cyclicity is real and substantial. The annualised volatility of expected one-year returns is around 6%, far larger than standard regression approaches imply. Patient investors who can act on this signal have an edge.

4. The longer your horizon, the more cash flows matter.

For most investors thinking about the next year or two, discount rate variation is the dominant force. But for long-horizon investors—pension funds, endowments, individuals saving for retirement—the permanent growth component becomes increasingly important. Forecasting five-year returns is significantly more tractable than one-year returns under this framework, with 22% out-of-sample R-squared.

5. The stock market is more predictable than the consensus suggests.

The apparent weakness of traditional return predictability is an artifact of measurement error, not evidence that markets are perfectly efficient. Once cash flow noise is properly filtered, the market is genuinely and substantially predictable—particularly over multiyear horizons.

The bottom line: Price/dividend ratio is a noisy signal

Hillenbrand and McCarthy have produced a paper that simultaneously resolves long-standing theoretical puzzles, passes stringent empirical tests, and delivers practically useful results. The core message is elegant: The price/dividend ratio is a noisy signal for expected returns because it conflates discount rate variation with cash flow trend and cycle dynamics. Filter out the noise, and return predictability is not only restored but is also quantitatively substantial.

For investors, the practical implication is that building better return forecasts requires disentangling the sources of valuation changes. A rising price/dividend ratio driven by accelerating trend growth is a fundamentally different signal from one driven by falling risk premium. Treating them identically—as nearly all standard models do—is a mistake with real consequences for portfolio construction and capital allocation.

The authors are careful not to claim this model is a crystal ball. Out-of-sample R-squareds of 9% and 22%, while impressive by academic standards, still leave the vast majority of return variations unexplained. However, their work does establish that the conventional wisdom—that future returns are essentially unforeseeable from valuation ratios—is incorrect. The signal is there. You just have to know how to listen for it.

[Larry Swedroe](#) is a freelance writer and author. The views expressed here are the author's. For informational and educational purposes only and should not be construed as specific investment, accounting, legal, or tax advice. The author does not own shares in any of the securities mentioned in this article.

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Should a fund manager invest their own money differently?

Joe Wiggins

I have never been a strong believer in the notion that a fund manager should invest their clients' assets 'as if it were their own money'.

It is a neat heuristic that I am not sure works consistently in practice. The reality is that there is likely to be a gap between a fund manager's personal and professional investments, and that difference can tell us a lot about an investor and the environment they operate within.

If we assume consistent objectives, why would a professional investor run their own portfolio in a manner that is different from their clients'? Primarily, because the constraints are distinct. By this, I

don't mean formal aspects such as the range of available assets or fees (although these do matter), but rather the informal restrictions that shape investor behaviour and decision-making. Constraints have a huge impact on investment outcomes but are typically ignored or hidden.

Let's say a fund manager runs their own portfolio and also a fund for a large asset manager; the goal of both is to generate a 3% real return over 10 years. Why might the approaches be different?

Career risk: The most obvious driver is the spectre of career risk. Professional investors are optimising for two things: delivering on the objectives of their fund over time and keeping their job while they attempt it. Three years of underperformance doesn't matter for a fund manager's personal portfolio, but it could matter a great deal for their career. The influence of this factor will depend heavily on the individual.

Keeping their clients invested: While managing career risk may seem like a rational but somewhat self-serving endeavour, there is a closely related behaviour whereby a fund manager adopts a different approach for their clients in an effort to keep them invested. There is no point in having a great investment strategy that nobody can stick with. An investment approach that can deliver 15% annualised over 10 years, but will at some point underperform by 30% over three years, could be ideal for their personal portfolio; it is just that their fund might not have many assets left at the end of the 10 years. Professional investors should seek to run money in a way that keeps clients invested (for the right reasons).

Team over individual: Most professional investors work in teams. The investment process adopted and decisions made are the result of interactions within that group, rather than a reflection of one individual's ideas. When a fund manager invests for themselves, they can pay attention to, or ignore, their colleagues as much as they wish. It is reasonable to assume that we will overweight the value of our own opinions.

Living through outcomes: Nobody has to live through the short-run outcomes of their personal investments; we can check our portfolios as infrequently as we like. When fund managers make decisions professionally, however, they have to experience those outcomes on a daily basis and are subject to constant scrutiny. Even if they have a resolute belief that an underperforming investment idea will work over the long run, this conviction might be tempered if they have to justify it to a committee every quarter. The emotional toll can be heavy and one that many people would rather avoid.

Managing for the collective: When a fund manager makes investment decisions for their own portfolio, they are doing so with 'perfect' knowledge of the person they are investing for and to whom they are accountable. That is entirely different when those decisions are being made for a sizeable, largely unknown and diverse group of people. Managing for the collective is different from running money according to your own personal circumstances and views.

Norms and conventions: Personal portfolios are unseen, so there is absolute freedom to take decisions that may seem odd, anomalous or imprudent relative to industry conventions. This could lead to value-creating liberation or some unmitigated disasters (from which clients may be spared)

It is easy to assume that the constraints creating a gap between how a professional investor runs their own money and their funds are negative for clients – as if they are receiving an impaired version of a

'pure' investment strategy. I don't think this is always the case. While some constraints can be an impediment, others can serve as an effective limit on sometimes erratic or self-centred individual behaviour.

There is no blanket answer as to whether a gap between personal and professional investment is positive or negative; it is simply important to understand whether it exists and why.

Joe Wiggins is Director of Research at UK wealth manager, [St James's Place](#) and publisher of investment insights through a behavioural science lens at www.behaviouralinvestment.com. His book [The Intelligent Fund Investor](#) explores the beliefs and behaviours that lead investors astray, and shows how we can make better decisions.

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