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Editorial

One of the challenges with investor surveys is separating what respondents say from what they actually do.

The State of the Australian Investor study attempts to test the gap between intention and reality by combining survey responses with portfolio and transaction data from almost 100,000 investors.

The stereotype of the typical retail investor can be difficult to shake. Popular culture still imagines a trader glued to multiple screens, chasing tips and trying to outsmart professionals. But the investors captured in this study are quite different.

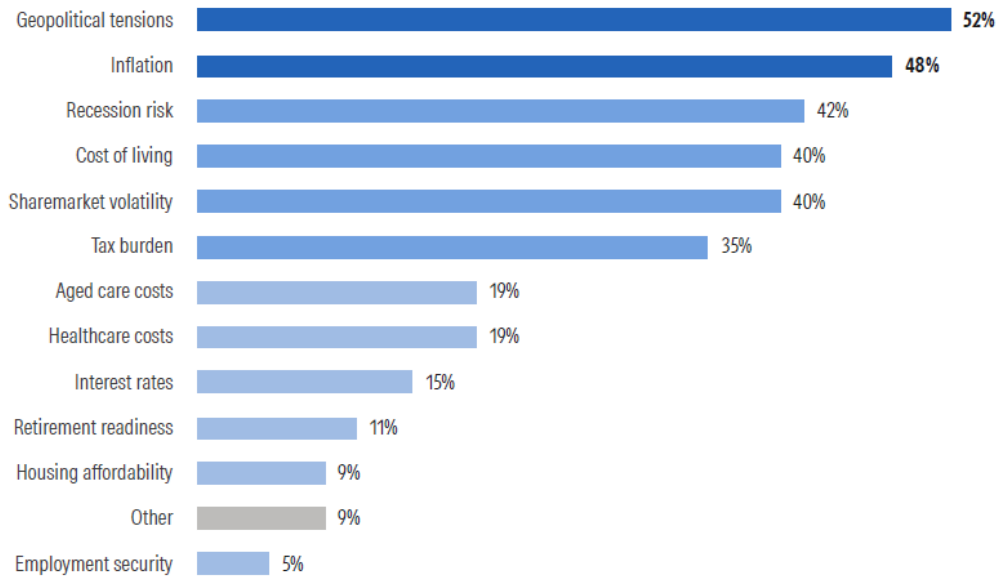
Around 65% have been investing for over 20 years, almost 70% have more than \$1 million invested (excluding their home) and roughly 84% make all or most investment decisions themselves. In many ways, I'd imagine that the survey cohort looks somewhat similar to the composition of Firstlinks readers. Despite the decades of experience, they remain just as capable as everybody else of worrying about what comes next.

Concerned, but not retreating

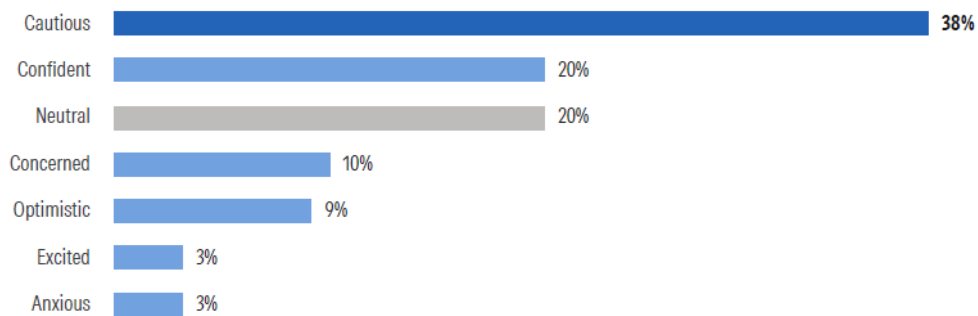
Markets have spent the past few years lurching from one fear to the next. Geopolitical tensions topped the list with inflation, recession risk, volatility and taxes close behind. "Cautious" was by far the most common emotion respondents selected when asked how they felt. If we analyse the sentiment in isolation, one could assume investors had spent the year retreating to cash and waiting for clearer skies. But that has not been the case.

EXHIBIT 24
Which of the following concerns you most right now?

Respondents chose up to three



Source: Morningstar State of the Investor Survey, FY2026. n = 1,540. Responses total more than 100% as up to three could be chosen.

EXHIBIT 23
Which emotion best describes how you currently feel about investing?


Source: Morningstar State of the Investor Survey, FY2026. n = 1,539.

During the August 2024 sell-off, the tariff correction in April 2025 and the period of tension surrounding the Iran conflict, participants became more active rather than less. The chart below shows how buying consistently outpaced selling by roughly two-to-one.

EXHIBIT 16
Trading during the three major market-event windows

WINDOW	DATES	TRADING DAYS	AVERAGE DAILY TRADES	VS ORDINARY DAYS	BUYS PER SELL
Aug 2024 global sell-off	1 – 6 Aug 2024	4	20,256	+45%	2.25
Tariff / AI fall	1 Feb – 11 Apr 2025	50	14,762	+6%	2.26
Iran War	25 Feb – 30 Mar 2026	24	15,304	+10%	2.03
Ordinary weekdays	everything else	444	13,953	—	2.12

Source: Sharesight. Weekday averages; the two years contain 522 trading weekdays.

This paints a somewhat inconsistent picture. Education often focuses on the dangers of emotional decision-making and panic selling during downturns. However, many are now increasingly willing to look through market shocks, perhaps because they've seen enough.

One could argue that every meaningful downturn since Covid has eventually become a buying opportunity. Has this conditioned investors to buy the dip just as Pavlov trained his dogs? Or have uncertainty and extreme volatility simply become the new state of affairs? I'm not in the business of making forecasts, so I'll just say that it remains to be seen.

How did you perform against others?

What's particularly noteworthy is that portfolio returns significantly exceeded the ASX 200, which saw a 2.6% rise over FY26. The average investor enjoyed a very strong year with returns exceeding 13% in FY26. The median return was ~11% and more than 80% finished the year ahead. For most, these are enviable outcomes.

EXHIBIT 1

FY2025 versus FY2026 portfolio return distribution

MEASURE	FY2025	FY2026	CHANGE
Equal-weight mean return (the typical portfolio, one vote each)	13.9%	13.3%	-0.6pp
Median return	13.0%	11.0%	-2.0pp
Dollar-weighted mean return (how the money did)	13.7%	11.7%	-2.0pp
Weighted median (the middle dollar)	13.2%	9.7%	-3.5pp
Portfolios that finished up	87.0%	82.4%	-4.6pp
Portfolios reported (same set both years)	91,440	91,440	—

Source: Sharesight. Note on reading the table: the equal-weight mean and the median can move differently without contradiction. The FY2026 return distribution has a fatter right tail, which holds the mean up while the median falls.

However, it is important to note that these portfolios contain a mix of global equities, cash flow from dividends, currency effects and different risk exposures. A direct comparison to the ASX is not particularly helpful. Yet the fact remains that the cohort achieved strong outcomes in a year when the domestic market was comparatively subdued. These results even outperformed most large, diversified growth-oriented industry super funds.

Income is making a comeback

A lot of industry commentary tends to frame success almost entirely through capital growth. Taking a deeper look into composition reveals that in FY26, income accounted for 4.1% of an 11.7% dollar-weighted portfolio return. In plain terms, over a third of total returns came from income.

The report argues that many are actively seeking income-producing investments rather than simply receiving income as a by-product of their portfolios. This is supported by the growing popularity of high-yield strategies like Vanguard's Australian High Yield ETF (VHY), which climbed from the 14th most traded security to 9th place over the year.

Part of the explanation may be demographic, but tax is likely also playing a role. Throughout the survey, the topic repeatedly emerged as a major concern. Recent policy changes have prompted a greater focus on after-tax outcomes, rather than simply chasing the highest headline figure. Two portfolios with identical pre-tax returns can look very different once tax is taken into account.

I believe there is also a psychological element. During uncertain periods, steady income can be a reassuring reminder that portfolio performance is not solely dependent on somebody else paying a higher price for an asset in the future. While you may not necessarily want less exposure to equities, there could still be a preference for a greater share of returns to be arriving as cash.

The ETF story isn't what you think

The data confirms something that most already know. ETFs are becoming the default, as purchases exceed sales by three to five times. In FY26, the median ETF holder allocated 77.5% of their portfolio to ETFs, compared with 69.0% for the median direct-share holder.

Importantly, this doesn't imply an abandonment of stock selection. The report rejects the simplistic idea that you can be either active or passive. What emerges is strong evidence that many are adopting a "core and satellite" model. Investors use broad funds as foundations, while maintaining direct holdings in companies where they possess conviction.

EXHIBIT 10

Allocation depth among investors who hold each asset class

CLASS	HOLDERS FY2025	TYPICAL HOLDER'S ALLOCATION FY2025 (MIDDLE 50% RANGE)	HOLDERS FY2026	TYPICAL HOLDER'S ALLOCATION FY2026 (MIDDLE 50% RANGE)
Direct shares	62,387	72.6% (26.2 to 100)	62,256	69.0% (23.3 to 100)
ETFs	56,856	76.5% (32.0 to 100)	57,845	77.5% (33.2 to 100)
Funds	10,425	8.1% (2.7 to 24.8)	10,400	7.6% (2.6 to 23.8)
Custom investments	4,232	19.8% (3.9 to 59.1)	4,358	20.7% (4.0 to 60.0)
Other (options, hybrids, ETCs)	8,625	5.2% (1.1 to 14.4)	9,965	4.9% (1.1 to 13.6)
Crypto	3,514	9.8% (2.1 to 36.0)	3,779	4.6% (1.0 to 18.9)

Source: Sharesight. Note: For each investor who holds a class, that class's share is considered against total portfolio value. Only holders are counted.

Retirement prospects

The final thing that stood out was the set of figures below.

Around 94% of respondents know exactly or roughly how much income they'll need once they stop working. That sits somewhat awkwardly beside the prevailing narrative that Australians are financially unprepared for retirement. Of course, there are certainly large pockets of the population where that concern is justified, but these findings reflect how many are operating from an entirely different position.

EXHIBIT 27

Do you know how much income you will need in retirement?

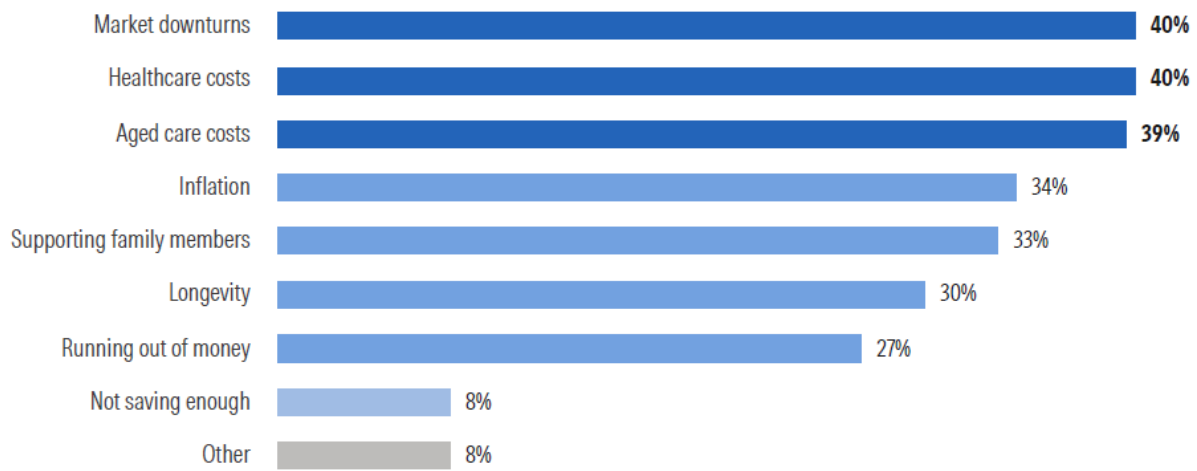


Source: Morningstar State of the Investor Survey, FY2026. n = 1,537. The final segment answered "no".

EXHIBIT 28

What concerns you most about retirement?

Respondents chose up to three



Source: Morningstar State of the Investor Survey, FY2026. n = 1,531.

Running out of money and not saving enough aren't the primary concerns. Instead, there are worries that unknown costs or volatility will disrupt the retirement they have planned.

Simonelle Mody

Also in this week's edition...

Rachael Rofo returns to discuss the recent Bills introduced into Parliament and why she thinks [Treasury has picked the wrong reading](#).

The 4% rule has survived decades of scrutiny, but **Mark LaMonica** poses the question: [Does an American retirement rule work for Australians?](#)

Glencore has landed on the ASX. **David Tuckwell** explores [whether the company offers something BHP and Rio can't](#).

Noel Whittaker proposes [three common sense reforms](#) that Australia needs right now. **Tony Dillion** reflects on [how the new CGT regime creates distortions](#) and raises questions around tax neutrality.

Some effects of rising public debt never make the headlines. **Ruchith Dissanayake** uncovers [the hidden cost for ASX investors](#). [Is fundamental investing losing its grip on markets?](#) **Joe Wiggins** suggests the dominant force behind short-term returns may be something else altogether.

Testamentary trusts: Treasury has picked the wrong reading

Rachael Rofe

In September I wrote that testamentary trusts, the trusts created under a will after death, had survived the Government's new 30% minimum tax on discretionary trusts, but that [the drafting battle had just begun](#). The exposure draft pointed one way and its Explanatory Memorandum pointed another. The question was whether the exemption turned on who actually receives distributions from the trust, or on who the will allows to potentially receive it.

We now have the answer. It's the wrong one.

The *Treasury Laws Amendment (Tax Reform No. 3) Bill 2026* was introduced on 14 October. The testamentary trust exemption is still there, with the same three conditions: the trust must arise from a will, court order or intestacy; its income must come from estate assets; and, for trusts established on or after 1 July 2028, the beneficiaries must be limited to individuals, tax-exempt entities such as charities, and special disability trusts.

The first two are sensible. On the third condition, the Bill has taken the broader reading. It looks at who the will allows to benefit from the trust, not who actually gets paid.

For decades, lawyers (me included) have drafted testamentary trusts with a wide class of potential beneficiaries. Children and grandchildren, yes, but also their family companies, family trusts and sometimes the estate of a beneficiary who has died. Nobody expected the trustee to use all of them. Indeed, some of them may never even exist. The point was flexibility. If your daughter later runs her business through a company, or sets up a family trust for her own children, the trustee can respond.

The Bill doesn't care whether any of those options are ever used. The Explanatory Memorandum is clear: one ineligible beneficiary in the class of potential beneficiaries costs the whole testamentary trust its exemption, even if it never receives a cent.

Timing makes it worse. A testamentary trust generally comes into existence when assets pass to the trustee after death, not when the will is signed. So a will signed in 2010 by someone who dies in 2030 is judged against a test written in 2026. And once the will-maker has died, the drafting is locked in.

The result is that if the Bill passes as drafted, anyone whose will gives a testamentary trust the power to benefit a family company, family trust or deceased beneficiary's estate will need to redraft it to keep the exemption. That is most testamentary trust wills in Australia. You could avoid the problem by dying before 1 July 2028, although most people would probably prefer a legislative solution.

Many testamentary trusts give the trustee a power to vary the trust's terms once it is up and running. It's tempting to think the trustee could simply use that power after death to remove the companies and family trusts from the class. That is unlikely to work. The test reads the will that established the trust, not a later amendment. A broad power to vary can itself be the problem, because if the trustee could add ineligible beneficiaries back in, they remain potential beneficiaries. And a variation made after death to qualify for the exemption sits uncomfortably close to the anti-avoidance rule. Don't count on it.

Who pays

Testamentary trusts exist to look after people. A child who has lost a parent. A surviving spouse. A family member who can't manage money alone.

Under current law, a child receiving income from a testamentary trust is taxed at adult rates with the tax-free threshold, rather than the penalty rates that normally apply to children's unearned income. That concession is much of the reason these trusts exist.

Take a child with \$20,000 of trust income. At adult rates, they pay little or nothing. If the trust loses its exemption, the trustee pays 30% tax, or \$6,000 on that income. The child gets a non-refundable offset for that tax, which is worth nothing when they have no tax to offset. That's \$6,000 a year, every year, lost to a clause in a will that may never have been used.

We've solved this before

The Government's concern is legitimate. It doesn't want testamentary trusts used to channel income from unrelated assets to children at concessional rates, or to feed family companies.

Parliament dealt with almost exactly this problem in 2019. People were putting non-estate assets into testamentary trusts so income could flow to children at adult rates. The fix, section 102AG(2AA) of the Income Tax Assessment Act 1936, limited the concession to income from assets that came from the estate. Not one will had to be rewritten.

The Bill keeps that rule as its second condition, then adds the beneficiary test on top. One test asks where the money came from. The other asks who could receive it, even if they never do.

Off to the Senate

On 15 October the Bill was referred to the Senate Economics Legislation Committee, which is due to report on 13 November. Lawyers and advocates, me among them, will no doubt repeat what we said during consultation. It was ignored the first time. Let's hope the Senate listens more closely than Treasury did.

I should declare an interest. Those of us contributing to this debate, myself included, stand to benefit financially if the Bill proceeds as drafted. Forcing Wills to be redrafted is good for business, and professionals like us get paid to do it. Yet we are arguing for a better outcome, one that avoids unnecessary cost and inconvenience for families. When the people who would profit from a mess are asking the Government not to make one, they might be worth listening to.

There are two simple fixes.

1. *Apply the test to wills, not trusts.* The beneficiary condition should apply only to wills signed on or after 1 July 2028, not to every testamentary trust that happens to come into existence after that date. People making a will from then on will know the rules. People who signed years ago couldn't have.
2. *Tax what happens, not what might.* Apply the minimum tax to income actually distributed to ineligible beneficiaries, rather than disqualifying the whole trust because of a clause that may never be used.

Either would protect the revenue without forcing a wave of redrafted wills.

What to do now

The Bill hasn't passed and the exemption could still change. If your will doesn't set up a testamentary trust, none of this affects you. If it does, what you should do depends on one question: does your will need updating for reasons that have nothing to do with this Bill?

If yes, redraft now. If no, review now and wait before redrafting.

Your will needs updating anyway: do it now

A new grandchild, a separation, a change in your business or assets, a change in who you want to provide for, or concerns about losing capacity are all reasons to act regardless of this Bill. An outdated will does not become less outdated because Parliament is considering tax legislation.

A new will can be drafted to meet the proposed exemption. Since the exposure draft came out on 3 September, I have been drafting testamentary trusts that limit the potential beneficiaries to individuals, tax-exempt entities such as charities, and special disability trusts. The will can also stop the trustee adding assets from outside the estate and require records that trace income back to estate assets, which covers the other two conditions.

The cost is flexibility. The trustee can no longer distribute to a family company or family trust, even if that might one day have been useful. For many families, that is a cost worth accepting, especially for a new will where everyone knows the rules. If the final law turns out more generous, you will have given up some flexibility, but not the tax exemption.

Your will is otherwise up to date: review now, redraft later

Ask your lawyer to check the class of potential beneficiaries in your testamentary trust. You will find out whether the proposed rules affect your will, and by how much. The issue may be less significant than you feared.

If your will is affected, wait before redrafting, but don't forget about it. The Senate committee reports on 13 November and the rules may still change. If they don't, your will needs to be redrafted to keep the exemption. The beneficiary test applies to trusts that come into existence from 1 July 2028, so aim to have the redraft signed before then, and certainly while you still have capacity. Wait for the law to settle, then redraft once rather than twice.

Either way

Find your will. Check who can benefit. Don't count on a power to vary after you die to save it.

The Government got the policy right and the drafting wrong. Unless the Senate fixes it, families will pay tax on flexibility they never used, built into wills they signed in good faith.

[Rachael Rofe](#) is an estate planning lawyer and Principal Solicitor of [Rofe + Counsel](#), a legal practice advising families nationally on testamentary trusts, intergenerational wealth transfer and structured giving. She made submissions on the testamentary trust exemption during Treasury's consultation.

This article is general information only and is not legal advice.

Does an American retirement rule work for Australians?

Mark LaMonica CFA

Stay committed to your decisions, but stay flexible in your approach.

- Tony Robbins

Last week I proposed [a scorecard for retirement](#) where readers could self-assess their retirement prospects using four criteria:

- Understanding the maths of retirement
- Knowing how much you will spend
- Estimating how much you need to support annual spending
- Defining an asset allocation strategy

I received several questions about the maths of retirement. In essence, I was asked if I committed an informal fallacy by using the 4% rule as the basis for creating the personalised withdrawal rate.

These are valid questions. The 4% rule was designed for the American retirement system. There are several core differences in the Australian system which call into question the 4% rule's relevance to our local market.

As an American who moved to Australia 12 years ago, I've had to adapt my thinking to an entirely new retirement system. Is my outside perspective useful? Or am I too influenced by the framework I grew up with? That is the question I set out to answer.

Difference one: Minimum pension drawdown rates

Once you move your super to an account-based pension the government requires you to withdraw a minimum percentage of your balance each financial year.

The minimum pension drawdown rate is based on your age. The following table outlines the withdrawal rates:

Age of beneficiary	Minimum annual drawdown rate (% of account balance)
Under 65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	9%
90 to 94	11%
95 and over	14%

For anyone with an account-based pension who is older than 65, the minimum annual drawdown rate exceeds 4%. On the surface this presents an issue as the government is requiring you to take out more from your super than the 4% rule would suggest is sustainable.

Prior to identifying the disconnect between the two withdrawal rates it is worth looking at the intention of the 4% and the minimum pension drawdown rate.

The 4% rule is intended to represent a sustainable withdrawal rate given a variety of market return and inflation environments over 30 years. Specifically, it is supposed to protect against a bear market and high inflation early in retirement.

The minimum pension drawdown rate is not designed with the sustainability of a portfolio in mind. There are generous tax breaks for account-based pensions. Investors pay no tax on capital gains or income.

The minimum pension drawdown rate is designed to get assets out of this generous tax environment so the funds can be taxed or spent. This isn't some conspiracy theory. Politicians from various political parties have repeatedly said the purpose of super is not tax minimisation or estate planning – it is to pay for retirement.

How do various withdrawal rates impact retirement outcomes?

Retirement outcomes are dependent upon market and economic conditions. Most academic studies use a Monte Carlo simulation which tests different combinations of inflation and market returns.

[The 1998 Trinity Study](#) by finance professors Cooley, Hubbard and Walz tested every scenario between 1926 and 1995 at different withdrawal rates. A scenario was deemed a failure if a retiree ran out of money in less than 30 years.

For a 4% withdrawal there was a 0% failure rate for a 75% growth / 25% defensive asset allocation. For a 5% withdrawal rate the failure rate jumped to 22%.

That is a stark difference, but it is worth noting that the failures for the 5% withdrawal rate occur if someone has the bad luck of retiring at the wrong time. The wrong time is during a high inflation environment when markets immediately plummet.

The first five years of retirement are the danger zone. The initial withdrawal rate you pick is tested during this period.

A simple example demonstrates the importance of getting through this danger zone. If you retired five years ago you've made it through this perilous period in decent shape. Inflation was relatively high, but returns were strong.

The following chart shows the returns of various AustralianSuper funds in pension mode and inflation for the previous five financial years.

AustralianSuper fund	Current asset allocation	30/6/2022	30/6/2023	30/6/2024	30/6/2025	30/6/2026
Balanced	73.80% growth / 26.20% defensive	-3.02%	9.03%	9.25%	10.41%	10.82%
High growth	87.20% growth / 12.80% defensive	-4.24%	11.65%	11.25%	11.56%	12.88%
Indexed diversified	70.40% growth / 29.60% defensive	-6.46%	13.12%	12.82%	13.48%	10.10%
Conservative balanced	58.50% growth / 41.50% defensive	-3.33%	6.36%	7.22%	9.51%	9.19%
Stable	39.90% growth / 60.10% defensive	-2.82%	3.97%	5.15%	8.05%	7.01%
Inflation		6.10%	6.00%	3.80%	2.10%	3.80%

Assume a retiree began retirement with a \$1,000,000 portfolio, withdrew their expenses each year on 1 July starting in 2021, and then earned the applicable financial year returns.

The following is the annual ending balance with a 4% initial withdrawal rate subsequently increased by inflation.

AustralianSuper fund	Current asset allocation	30/6/2022	30/6/2023	30/6/2024	30/6/2025	30/6/2026
Balanced	73.80% growth / 26.20% defensive	\$931,012	\$968,833	\$1,009,257	\$1,062,765	\$1,124,930
High growth	87.20% growth / 12.80% defensive	\$919,324	\$979,007	\$1,039,072	\$1,107,094	\$1,195,887
Indexed diversified	70.40% growth / 29.60% defensive	\$898,02	\$967,787	\$1,041,071	\$1,128,393	\$1,189,868
Conservative balanced	58.50% growth / 41.50% defensive	\$928,036	\$941,942	\$961,719	\$1,002,005	\$1,042,071
Stable	39.90% growth / 60.10% defensive	\$932,940	\$925,848	\$926,261	\$950,383	\$966,021
1 July withdrawal		\$40,000	\$42,440	\$44,986	\$46,695	\$47,676

Next is the annual ending balance with a 5% initial withdrawal rate subsequently increased by inflation.

AustralianSuper fund	Current asset allocation	30/6/2022	30/6/2023	30/6/2024	30/6/2025	30/6/2026
Balanced	73.80% growth / 26.20% defensive	\$921,314	\$946,690	\$972,781	\$1,009,602	\$1,052,806
High growth	87.20% growth / 12.80% defensive	\$909,748	\$956,470	\$1,001,488	\$1,052,142	\$1,120,403
Indexed diversified	70.40% growth / 29.60% defensive	\$888,663	\$945,204	\$1,002,906	\$1,071,837	\$1,114,477
Conservative balanced	58.50% growth / 41.50% defensive	\$918,369	\$920,374	\$926,536	\$950,694	\$973,027
Stable	39.90% growth / 60.10% defensive	\$923,222	\$904,712	\$892,210	\$900,977	\$900,394
1 July withdrawal		\$50,000	\$53,050	\$56,233	\$58,369	\$59,595

In both cases the hypothetical retiree's portfolio has held up well. In the 4% withdrawal scenario an investor would have a larger portfolio than when they started in four out of five AustralianSuper investment options. The most conservative portfolio balance is only ~\$34,000 lower despite supporting spending of ~\$221,000.

The 5% withdrawal impacted the portfolio balance, but three out of five portfolios invested in AustralianSuper investment options have risen in value. In this case all five portfolios have supported ~\$277,000 of spending.

What if returns were lower?

Another scenario shows what happens if someone retires in a less advantageous environment. Unlike the Monte Carlo simulation I'm not modeling out the worst possible situation. I used the same inflation figures from the last five years and simply adjusted the returns.

I reduced the positive returns by half and doubled the drawdown in the financial year ending 30 June 2022 when an AustralianSuper investor experienced negative returns.

Below is the 4% withdrawal scenario:

AustralianSuper fund	Current asset allocation	30/6/2022	30/6/2023	30/6/2024	30/6/2025	30/6/2026
Balanced	73.80% growth / 26.20% defensive	\$902,025	\$898,406	\$892,870	\$890,217	\$888,126
High growth	87.20% growth / 12.80% defensive	\$878,649	\$884,902	\$887,149	\$889,031	\$895,545
Indexed diversified	70.40% growth / 29.60% defensive	\$836,035	\$845,635	\$851,956	\$859,525	\$852,847
Conservative balanced	58.50% growth / 41.50% defensive	\$896,073	\$880,789	\$885,977	\$858,221	\$847,806
Stable	39.90% growth / 60.10% defensive	\$905,880	\$880,577	\$857,124	\$843,054	\$823,271
1 July withdrawal		\$40,000	\$42,440	\$44,986	\$46,695	\$47,676

And the 5% withdrawal scenario:

AustralianSuper fund	Current asset allocation	30/6/2022	30/6/2023	30/6/2024	30/6/2025	30/6/2026
Balanced	73.80% growth / 26.20% defensive	\$892,629	\$877,497	\$859,227	\$842,542	\$825,307
High growth	87.20% growth / 12.80% defensive	\$869,497	\$863,989	\$853,181	\$840,750	\$831,467
Indexed diversified	70.40% growth / 29.60% defensive	\$827,326	\$825,050	\$818,064	\$810,910	\$789,256
Conservative balanced	58.50% growth / 41.50% defensive	\$886,739	\$860,210	\$833,003	\$811,451	\$786,419
Stable	39.90% growth / 60.10% defensive	\$896,444	\$860,133	\$824,617	\$797,094	\$763,362
1 July withdrawal		\$50,000	\$53,050	\$56,233	\$58,369	\$59,595

This is far from a doomsday scenario but the outcomes are very different. The ending balances at the 4% withdrawal rate were 14.77% to 28.32% higher under the actual market return scenarios. In the 5% withdrawal scenario they were 15.22% to 29.18% higher.

These are arbitrary examples, but they are illustrative of both the dangers of sequencing risk during the first years of retirement and the limitations of assuming retirees won't adjust their behaviour in response to changing conditions.

In all of these examples and any Monte Carlo simulation the underlying assumption is no action is taken by the retiree based on returns or inflation. No adjustments are made to spending levels and no thought is put into which positions are sold and which are retained.

The core lesson from all these studies on withdrawal rates is that there is a danger zone during the first five years of retirement. That is when investment mistakes matter more, the overall return environment is more consequential and increasing spending is more impactful.

My advice remains consistent. Set a withdrawal rate that is appropriate for your own situation. Use your personalised withdrawal rate and take the minimum pension drawdown rate at face value – the intention of the policy makers in Canberra wasn't to set retiree spending levels. You may have to take the money out of super but you don't have to spend it.

Difference two: Do the distinctions between social security in the US and the age pension mean the 4% rule doesn't apply in Australia?

This is a very good question. Unlike the age pension there is no means test for social security in the US. If someone is employed for around ten years in the US they are eligible for social security.

Lifetime earnings impact the amount of the social security payment as well as when someone elects to start receiving benefits. A reduced benefit is available at 62 years old, the full benefit at 67 and a larger benefit is paid to people who delay until 70 years old.

Social security provides a baseline level of financial support in retirement with a current average benefit of around US\$2,000 or \$2,900 per month.

The age pension operates differently. For some retirees the age pension makes up all or a portion of spending from the start of retirement. But for all retirees it acts as a fallback plan. The current maximum age pension for a single person is \$1,237.70 per fortnight.

For both retirees eligible for social security in the US and Australian retirees 'running out of money' isn't technically possible. But if you begin retirement with enough assets to exclude you from the age pension the means test should factor into your decision making.

This is highly dependent on your personal circumstances. The age pension eligibility criteria can be ignored if your wealth far exceeds the cutoff. In that case, focus on the sustainability of the lifestyle that level of wealth enables.

However, if you are not eligible for the age pension at retirement but are relatively close to qualifying make sure you factor that into how you think about your initial withdrawal rate, asset allocation and housing situation.

The following table shows the current cut-off for full and partial age pension eligibility. Assets exclude the value of your primary place of residence.

Situation	Full pension	Partial pension
Single homeowner	\$333,000	\$745,750
Single non-homeowner	\$600,000	\$1,012,750
Couple homeowner (combined assets)	\$499,000	\$1,121,000
Couple non-homeowner (combined assets)	\$765,000	\$1,388,000

Reconsidering your withdrawal rate

If there was no age pension fallback you need to pick an initial withdrawal rate that makes it unlikely you will run out of money if you go through a challenging market environment early in retirement.

With an age pension fallback, it makes sense to set a higher initial withdrawal rate to support spending early in retirement when you are active. If returns are high, you will be fine. If returns are poor and your portfolio drops in value you will be eligible for the partial or full age pension.

Factor the age pension into your asset allocation

The same logic applies to asset allocation. Allocating more of your portfolio to growth assets increases your expected long-term returns.

This benefit is offset by the increased volatility of growth assets. But if your portfolio falls in value you could become eligible for the age pension. You get all the upside of growth assets while the age pension partially offsets the consequences of poor returns.

Addressing housing in retirement

The value of your primary place of residence is not included in the age pension means test. More Australians are retiring with a mortgage and housing is generally the largest item in a household budget.

If you retire with a mortgage there is an incentive to pay it off using any other funds you've accumulated. That eliminates a large expense and might make you eligible for the age pension.

Final thoughts

Differences between retirement systems do matter. The current rules and tax policies should influence your retirement strategy and decision making. As should your personal circumstances.

Remember, the rules and tax policies are not set in stone. We've seen profound changes in the last two years and changes will continue.

The wealth you accumulate is not the defining feature of your life. It is an enabler of getting to define your life on your own terms.

That isn't easy to do. It involves building knowledge. It requires discipline and patience over decades. It takes a bit of luck.

In my last column I challenged readers to complete a self-assessment to identify areas that might need some further attention. In this column I've challenged my outside perspective. I think the principles of retirement planning apply to any system.

If you don't understand the maths of retirement, I would encourage you to put in some work to increase your knowledge.

Australian retirees shouldn't blindly follow any rule of thumb – especially one designed for another retirement system.

But nor should they ignore the underlying principles. The maths of retirement doesn't change just because rules are different.

Questions, comments or restaurant recommendations? I can be reached at mark.lamonica1@morningstar.com.

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Glencore lands on the ASX. Should BHP and Rio shareholders switch?

David Tuckwell

Glencore's arrival on the ASX gives Australian investors a new choice. Should they stick with BHP and Rio Tinto, or allocate some capital to Glencore (GLC)?

BHP and Rio offer franked dividends, stronger governance credentials and established places in Australian portfolios. Glencore is cheaper, has a trading arm and ambitious copper growth potential. Its Australian listing is designed to help narrow its valuation gap.

Our view is that Glencore deserves consideration, particularly for investors seeking copper exposure and a different source of earnings. But there are good reasons why BHP and Rio shareholders might be better off doing nothing.

How Glencore works

Glencore is one of the world's largest miners and one of its largest commodity traders. That combination makes it different from BHP and Rio. Three features matter most to investors: the trading arm, coal and copper.

Trading brings in the revenue; the mines bring in the margin

Glencore's three pillars, 2025, US\$ billion



Marketing revenue is gross turnover before inter-segment eliminations. Excludes zinc, nickel, smelting, ferroalloys and oil refining.

Source: Glencore Preliminary Results 2025, segment revenue and Adjusted EBITDA.

Coal is an important differentiator. Glencore produces both steelmaking coal and thermal coal, which is burned to generate electricity. It plans to keep mining both for decades.

Rio, by contrast, has exited coal entirely. BHP's last thermal mine, Mt Arthur, closes in 2030. Thermal coal is the sticking point: investors must weigh Glencore's current cash flows against uncertain long-term demand, environmental liabilities and a shrinking pool of investors willing to own it.

Copper is the major attraction. Glencore is already one of the world's largest copper miners and has substantial room to expand. But its third business, marketing, is what really sets it apart.

The trading arm, explained

Think of Glencore as the Amazon of bulk commodities. It moved about US\$220 billion of metals, coal, oil and other products in 2025, much of it produced by other companies.

Glencore mines on six continents and trades across all of them

Selected operations and offices

Canada

Elk Valley steelmaking coal
Sudbury and Raglan nickel
Kidd zinc and copper

Europe

Baar, Switzerland: head office
London: oil and gas hub
Smelters in Germany, Italy, Spain and Norway

Kazakhstan

Kazzinc: zinc, lead and gold

South America

Chile: Collahuasi, Lomas Bayas
Peru: Antamina, Antapaccay
Argentina: Alumbraera, MARA, El Pachón projects
Colombia: Cerrejón coal

Africa

DRC: KCC and Mutanda copper and cobalt
South Africa: thermal coal, ferroalloys
Equatorial Guinea: oil

Australia

16 producing mines
NSW and Queensland coal
Mount Isa, McArthur River zinc and lead
Murrin Murrin nickel

What the trading arm sold in 2025

3.8Mt
copper

50.8Mt
coal

95.4Mt
iron ore

772m bbl
crude oil

Source: Glencore Preliminary Results 2025; Glencore ASX listing announcements, October 2026. Selected, not exhaustive.

In normal markets, trading margins are modest. But when volatility rises – through war, natural disaster, or something else – profits rise sharply.

We've seen that this year. Suppose a Singaporean refiner suddenly needed crude oil after a disruption in the Strait of Hormuz. Glencore may have a tanker loaded in West Africa for another customer. It can divert the ship to the Singaporean refiner willing to pay a premium, compensate the original buyer and keep the difference. The trade only works for someone with the cargo, the relationships and the logistical flexibility to act while other buyers scramble.

Operations: Glencore has an edge over BHP and Rio

Trading profits act as a useful shock absorber and give Glencore an earnings stream that BHP and Rio lack.

It is not a perfect hedge, but the type of events that make mining profits fall can also be the ones that make trading profits rise.

Glencore's trading business also partly explains why we believe Glencore may have an edge in copper – at least over Rio.

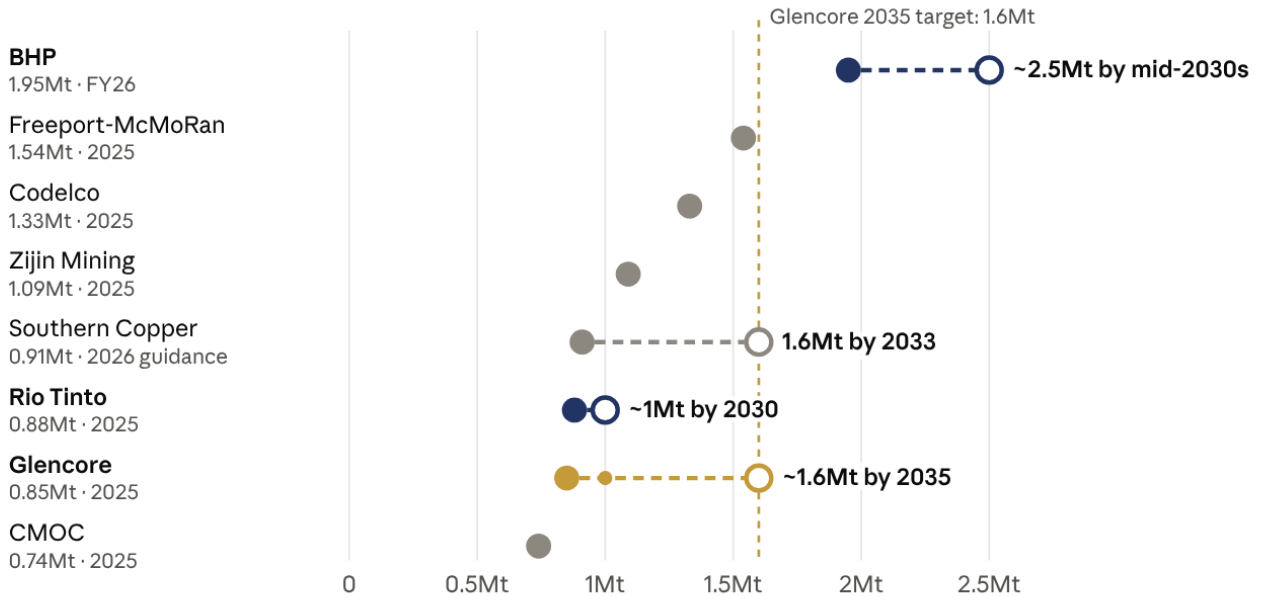
Glencore traded around 3.8 million tonnes of copper in 2025. That's more than four times its own mine output. Its traders bring commercial intelligence about future supply and demand.

Adding to its copper advantage is that Glencore has some of the most scalable brownfield copper mines. In its ASX investor presentation, Glencore outlined a pathway to more than one million tonnes a year by the end of 2028 and about 1.6 million by 2035, which would make it one of the world's largest copper producers if achieved.

Globally, that only really leaves BHP in front.

Glencore's target would lift it from seventh to second on today's numbers

Copper production, million tonnes a year: latest output (filled) and stated targets (hollow)



Bases differ: BHP is the year to June 2026; Freeport is consolidated and was cut by the Grasberg mudflow; Southern Copper is 2026 guidance. Small gold dot marks Glencore's goal of more than 1Mt by end-2028. No dot = no comparable target cited.

Sources: company reports (BHP, Freeport, Codelco, Zijin, Southern Copper, Rio Tinto, Glencore, CMOC); MiningVisuals.

Valuation and dividends: BHP and Rio win

On the surface, Glencore is the cheapest of the three. JPMorgan has it on about five times forecast 2027 EV/EBITDA, against more than six times for BHP and Rio.

Glencore is the cheapest of the three on 2027 earnings

EV/EBITDA, 2027 broker estimates (times)



Lighter shading shows the spread of broker estimates for BHP.

Source: JPMorgan and other broker estimates, 2027 EV/EBITDA.

However, this discount needs to be partly understood as governance concerns and a narrower potential shareholder base. For Glencore, there is heavy coal exposure, which many pension funds are restricted from owning. The market also discounts thermal coal assets because of uncertainty around long-term demand and ESG-related constraints.

The trading arm arguably deserves a higher valuation than traditional mining earnings. But a problem is Glencore's top competitors – like Mercuria, Trafigura, Vitol – are privately held. Meaning there aren't many comparables.

Dividends unquestionably favour BHP and Rio. Both currently yield about 4%, fully franked.

Glencore tends to prefer buybacks and has a strong track record of buying the dip on its own stock. Its cash dividend yield is around 2% and unfranked.

Indicative comparison	BHP	Rio Tinto	Glencore
Cash dividend yield	~4%	~4%	~2%
Franking	Full	Full	None
Grossed-up yield, zero-tax investor	~5.7%	~5.7%	~2%, plus buybacks

Indicative yields at the time of writing; they move with share prices and distributions. Grossed-up yields assume full franking and a 30% company tax rate.

Franking matters most to super funds in pension phase, which can claim refunds of unused credits. For them, a fully franked 4% dividend is worth roughly 5.7%.

Glencore's distribution framework works differently. It combines a fixed US\$1 billion payment from marketing cash flows with a variable component linked to industrial free cash flow, and the board can add special distributions or buybacks when the balance sheet allows.

Its chief financial officer has argued that BHP's and Rio's franking advantage will shrink as their operations become more international. That may happen over time, but for now their Pilbara iron ore earnings remain a deep source of Australian franking credits.

Why buying Glencore early may have benefits over time

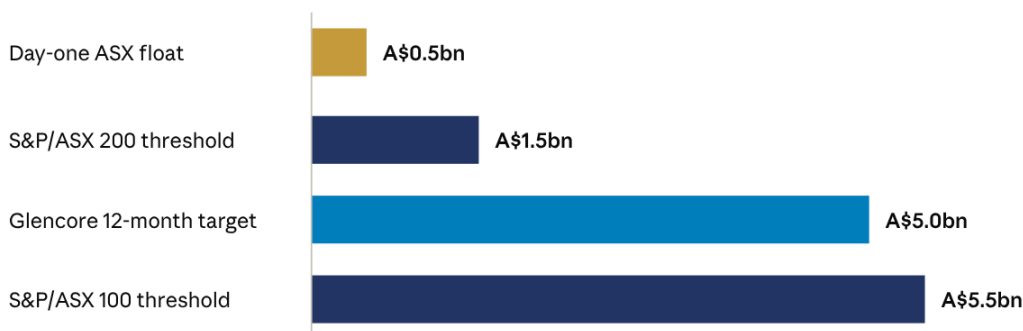
Glencore has listed in Australia partly to attract more investment from superannuation funds and narrow its valuation discount. If this works, ASX investors who get in early could benefit.

Index funds and benchmark-aware strategies increasingly dominate Australia's superannuation system. The result is that yields are thinning and index inclusion premiums for ASX-listed securities are rising.

Glencore's ASX debut exploits that. Glencore is starting small, with just \$500 million worth of shares on the ASX. It expects to qualify for the S&P/ASX 200 within 12 months, and the ASX 100 within two years.

Glencore needs to roughly triple its local float to reach the ASX 200

Value of shares on the Australian register vs index thresholds, A\$ billion



Sources: Sharetrader (44m CDIs x A\$11.23 first-day close); The Deep Dive (index thresholds); News24 (Glencore target).

Those targets appear achievable. As Glencore joins the major indices, it may receive a modest valuation uplift (although this is very difficult to quantify).

The key benefit, though, is that local listing raises Glencore's profile with Australian investors.

The verdict

Glencore's arrival gives more copper optionality and a unique trading business for ASX investors.

But BHP and Rio's franked income and stronger governance credentials remain compelling. By coming to Australia, Glencore may benefit from greater visibility and index inclusion over time.

For most investors, BHP and Rio remain credible core holdings. Glencore is worth considering as a satellite position for those who want its mix of copper growth and trading earnings and are comfortable with the risks that come with it.

ETF Shares provides the ETFS Global Pure Play Copper Miners ETF (ASX: CPPR) which began trading on the ASX in April 2026. For more information [click here](#).

David Tuckwell is the Chief Investment Officer at [ETF Shares](#), a sponsor of Firstlinks. He is also a journalist and researcher specialising in finance and international politics. The information provided in this article is general in nature. Before acting on any information in this article, you should consider the appropriateness of the information having regards to your objectives, financial situation or needs and consider seeking independent financial, legal, tax and other relevant advice. Past performance is no guarantee of future performance.

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Why does the system treat capital gains and losses differently?

Tony Dillon

The new CGT regime announced in the May 2026 Federal budget now sees capital losses treated differently to capital gains in two important ways.

1. Gains are taxed, but losses cannot be deducted against other income. Instead, capital losses can only offset capital gains, otherwise they are quarantined to offset against future gains. This has always been a feature of the CGT system. [Note that prior to the Budget, gains were taxed like normal income, but now there is a 30% minimum CGT to contend with.]
2. Gains are determined against a cost base indexed for inflation, while losses are not. The result is a new regime that taxes real gains but measures losses only in nominal terms.

Capital gains and capital losses are simply opposite sides of the same investment outcome. Yet the tax system treats them asymmetrically.

Had both simply been termed a 'capital outcome' from the outset, the question of treating them differently for tax purposes might never have arisen.

The effect of not indexing capital losses

The following example illustrates the effect of excluding capital losses from indexation.

Assume two investors.

Investor 1 buys shares A and B at a cost of \$1,000 each. At the same time, Investor 2 buys shares C and D for \$1,000 each.

All the shares are sold at the same time, with the cost base of all four shares indexed for inflation to \$1,200 per share.

Investor 1 sells his shares at \$500 for share A and \$2,500 for share B.

Total portfolio capital gain is \$1,000. The nominal gain on share B is \$1,500, which after inflation is a real gain of \$1,300. However, the real loss of \$700 on share A does not count. Only the nominal loss is recognised such that Investor 1 pays tax on a \$1,300 gain - \$500 loss = \$800.

Investor 2 sells shares C and D for \$1,500 each.

Total portfolio gain is \$1,000 also. And after inflation, the real gain per share is \$300. Investor 2 therefore pays tax on \$600. Both investors earned the same total nominal gain, yet Investor 1 reports a taxable gain one-third higher than Investor 2.

	Investor 1			Investor 2		
Share	A	B	Total	C	D	Total
Buy price	\$1,000	\$1,000		\$1,000	\$1,000	
Indexed base	\$1,200	\$1,200		\$1,200	\$1,200	
Sale price	\$500	\$2,500		\$1,500	\$1,500	
Nominal gain/loss	(\$500)	\$1,500	\$1,000	\$500	\$500	\$1,000
Taxable gain after indexation	\$0	\$1,300	\$1,300	\$300	\$300	\$600
Capital loss (nominal)	(\$500)	\$0	(\$500)	\$0	\$0	\$0
Net taxable capital gain			\$800			\$600

The asymmetry becomes greater when losses are carried forward. If Investor 1 retains share B therefore there is no capital gain to offset against, the \$500 nominal loss must be carried forward. Frozen at \$500, that loss would steadily be eroded by inflation over time, ensuring increasing asymmetry with the time taken to use the loss.

When two investors achieve the same economic outcome but face different tax outcomes, the design of the system deserves scrutiny.

If gains and losses are not measured symmetrically, it is reasonable to question both the rules for measuring those outcomes and their differing tax treatment.

Should the tax treatment of an investment portfolio depend on how its return is distributed across individual holdings?

The structure of ownership matters

If the portfolios of Investors 1 and 2 were held inside pooled investments such as ETFs, their investor-level CGT outcomes should be the same, assuming the same unit purchase and sale prices.

An investor owns units of an ETF rather than directly owning underlying shares. The ETF itself is the asset upon which outcomes are determined based on units bought and sold, not the dollar gains or losses of the underlying shares. Identical CGT outcomes assume that the ETFs buy and hold their stocks.

So we have another anomaly. Should the tax treatment of an investment portfolio depend on the structure through which the investments are held?

A potential distortion of investment

The new legislation would therefore seem to penalise direct stock picking and more volatile portfolios. The CGT treatment could influence how people invest their money.

An investor who selects individual shares faces the possibility of unindexed, quarantined capital losses. Yet investing in a pooled portfolio of similar underlying risk could yield more favourable tax outcomes.

And if the investor did choose to stock pick, investing in less volatile stocks theoretically produces steadier gains without oscillating so much between gains and losses. From a tax perspective, smoother return paths may become preferable to more volatile return paths, even where the latter offer higher expected pre-tax returns.

There may also be a bias towards holding underperforming assets rather than realising losses. Why crystallise a loss today if the system reduces its economic value over time? This lock-in effect would be more pronounced if there were no gains to offset against.

A more neutral tax system should reduce distortions around investment decisions. And more broadly, it should encourage more risk-taking and therefore the allocation of capital towards more innovative businesses prepared to invest in technology and take risks in research and development.

That is, tax policy that promotes investment in businesses focused on more productive activities, in an economy crying out for a boost to productivity.

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

Three common sense reforms that Australia needs

Noel Whittaker

“I’m from the government, and I’m here to help you.”

These are the most terrifying words in the English language, according to former US President Ronald Reagan. And you can see why as Australians grapple with changes to credit card surcharges. The incoming ban was supposed to save consumers \$1.56 billion, but businesses such as restaurants and coffee shops are already raising prices to compensate. Taxi companies have joined in, some charging 5% of the fare as a “service charge”.

Institutions that can’t easily raise their prices are refusing to accept credit card payment, so if that’s how you budgeted for school fees, council rates or income tax payments, you’ll need to think again. And, of course, the banks couldn’t let the opportunity pass. Annual credit card fees have leapt, reward points have been slashed, and consumers are wondering where their promised savings have gone.

But it needn’t be like this. Here are three simple changes the government could make, at little cost, that could transform the lives of hundreds of thousands of Australians.

ONE

Let’s start with the issue dominating talkback radio since I wrote about it a fortnight ago: banks freezing customer accounts without warning because they haven’t supplied additional identification or other information. It’s a financial cyberattack, but it’s the banks attacking their own customers. Suddenly, people can’t access their money, pay their bills or run their businesses. The consequences can be devastating.

The only remedy is to spend hours on the telephone trying to reach a human being, or to find a branch that’s still open and join the queue in person. Imagine a small business owner, already battling rising costs and endless red tape, who suddenly finds his account frozen. He can’t pay staff or suppliers, and must abandon his business for hours to sort out a problem entirely of the bank’s making. That’s productive time lost, income forgone and another blow to a business already struggling to survive.

My inbox has been flooded with horror stories, but one takes the cake. A friend was in discussions with the Commonwealth Bank about whether her family trust’s name should include the word “the”. Was it “XYZ Trust” or “The XYZ Trust”? While those discussions were underway, the bank froze the account. You couldn’t make this stuff up. Who in management decided that minor confusion over the official account name justified denying a customer access to her own money? The sheer arrogance beggars belief.

Electricity companies have special obligations to customers who depend on life-support equipment. Once registered, those customers must receive advance notice of planned power interruptions so they can make alternative arrangements. Yet a bank can suddenly cut off someone’s access to their money, leaving them unable to buy food, pay bills or meet essential expenses. Legislation forces electricity companies to take special precautions before interrupting a customer’s power lifeline. Surely a bank should have similar obligations before cutting off financial lifelines. The principle is identical: give people reasonable warning and an opportunity to protect themselves before pulling the plug.

Of course, banks have legal obligations to verify identities and comply with anti-money-laundering laws. Nobody disputes that. But those obligations should not be an excuse for treating customers like criminals. We need legislation requiring banks to exhaust every reasonable avenue of communication – including personal contact where practicable – before freezing an account, unless immediate action is legally required or necessary to prevent fraud. And if an account is frozen, there should be a fast, direct, and effective way to resolve the problem, not hours spent begging for someone to answer the telephone on the general number.

This would spare customers enormous distress, save businesses needless disruption and reduce the time bank staff spend cleaning up the mess. It would cost the government virtually nothing. Banks make billions in profits from their customers. Giving those customers access to their own money – unless there's a compelling legal reason not to – is both core business and basic decency.

TWO

Borrowers are constantly urged to shop around for a better home loan rate, but there's a catch that keeps buyers without a 20% deposit tied to their bank. It is lenders mortgage insurance, which can cost more than \$20,000.

Suppose you've paid \$20,000 in mortgage insurance on your ANZ loan and discover CBA is offering a much better rate. You decide to switch. Same borrower, same property, same risk. But lenders mortgage insurance isn't transferable between banks, so you could face another \$20,000 premium. That's money struggling borrowers simply don't have.

The result? Borrowers become prisoners of their existing lender until they've built enough equity to avoid mortgage insurance. And the banks know it. The solution is obvious: legislate to make lenders mortgage insurance transferable between lenders without another premium. There are only a handful of insurers; it can't be that hard.

Borrowers could then shop around without being penalised. More competition, lower repayments and not a cent of government expenditure. Problem solved.

THREE

Some of Australia's most vulnerable people are older renters, particularly single women who have escaped domestic violence or never managed to buy a home. As rents soar and Centrelink assistance falls behind, returning to work can make matters worse.

Take Margaret, 67, who has virtually no assets and pays \$400 a week in rent. Rent assistance of \$111.90 reduces that cost to \$288.10. Her full age pension of \$32,180 brings her annual income, including rent assistance, to \$37,999. Suppose she takes a job paying \$45,000, or \$1,667 a fortnight. Once assessable income exceeds \$226 a fortnight, her pension falls by 50 cents in the dollar. The Work Bonus exempts \$7,800 annually, with a possible additional \$4,000 credit. Even so, Centrelink assesses \$33,200 of her wages, reducing her pension by around \$530 a fortnight to \$18,518 a year.

Then comes the taxman. Margaret's salary and pension produce an estimated tax bill of \$10,298. So working costs her \$23,960 — more than half her wages — and leaves her over \$11,000 worse off. What an extraordinary way to treat someone trying to improve her circumstances.

Contrast this with the Wilsons, who own a \$3 million home, and have \$800,000 in super and \$50,000 in lifestyle assets. They receive a part pension of \$21,138, enjoy concession cards and withdraw \$80,000 tax-free from super. Because Centrelink deems their super to earn just \$27,788, they can earn another \$52,863 from work without losing any pension.

It's insane. Margaret, with virtually nothing, loses more than half her wages to tax and pension reductions, while a wealthy couple can earn \$52,863 without losing a cent of pension. It's welfare turned upside down.

The government should urgently ease the pension income test for older renters, allowing them to earn substantially more before their pension is reduced. These are people who want to work, need the money and have something to contribute. Instead of punishing them, we should be encouraging them. Surely that's what good government is supposed to do.

Political appetite for change

The response from Canberra was revealing. Both One Nation and the Greens said they would support these ideas, while Shadow Treasurer Tim Wilson said: "While we have not announced a formal policy, we support greater flexibility in lenders mortgage insurance, allowing pensioners to work without penalty, as we advocated at the last election, and preventing banks from freezing accounts unnecessarily because of needless regulation. We will consider these issues as part of our deregulation agenda."

Labor was less enthusiastic. It failed to answer the first two questions and offered a generic response on pensions that suggested it hadn't even understood the problem. Clearly, there's little hope of relief for low-income single pensioners from that quarter. Three simple reforms, virtually no cost to taxpayers, and enormous potential benefits. Surely that's not too much to ask of our politicians.

Noel Whittaker is the author of [Making Money Made Simple](#) and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noel@noelwhittaker.com.au.

The hidden cost of government debt for investors

Dr Ruchith Dissanayake

Rising government debt doesn't just affect taxpayers. It can reduce the number of takeovers, discourage corporate investment and weigh on the returns of the very blue-chip companies many investors own.

Investors watch the Reserve Bank closely, and with good reason. Last month it lifted the cash rate for the fourth time this year, to 4.6%. Canberra deserves almost as much attention. Australia's federal and state governments carry around \$1.6 trillion in debt, and in September the International Monetary Fund urged them to rein in spending.

The debt debate is usually framed around the future: the interest bill, the tax rises our children will face, the fiscal room needed for the next crisis. For investors, however, part of the cost arrives much sooner. It shows up in the investments and takeovers that never occur, and in the quality of the deals they do.

How government borrowing crowds out companies

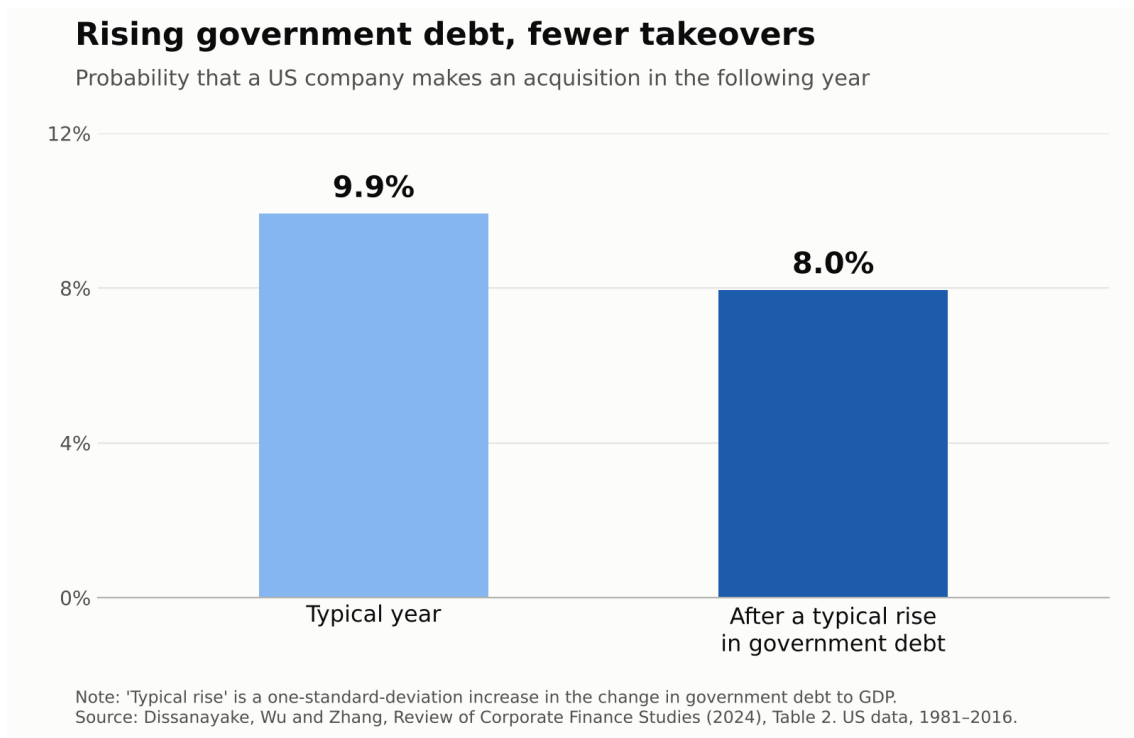
Every dollar governments borrow competes for the same pool of savings that funds business. When governments issue more bonds, banks, super funds and other investors shift money from lending to companies towards lending to government.

A study by John Graham of Duke University, Mark Leary of Washington University in St. Louis and Michael Roberts of the Wharton School traces this through almost a century of US company data. When the federal government borrows more, companies borrow less, invest less in plant and equipment, and hold more cash.

The surprise is who bears the cost. It isn't the weakest borrowers but the strongest. The effect is largest among big, low-risk companies, because their bonds are the closest substitutes for government bonds. When governments flood markets with safe assets, investors need less exposure to corporate bonds that serve a similar purpose. The result is that blue-chip companies can find funding conditions deteriorating just when investors assume they are safest.

Fewer takeovers, and worse ones

Using US data from 1981 to 2016, we find that a typical increase in government debt, measured relative to the size of the economy, reduces a company's likelihood of making an acquisition in the following year by about a fifth, from roughly 10% to 8%.



The drop is sharpest among the most creditworthy companies, and among those most exposed to uncertainty about future taxes and government spending. That second point matters. A board considering a major acquisition today can't know whether future governments will rely more on higher corporate taxes, lower spending or other measures. Separate research by Mariano Croce of Bocconi University and colleagues links that tax uncertainty to weaker returns on corporate innovation. Companies facing an unresolved fiscal bill often wait before committing to long-lived investments.

The deals that do go ahead are also poorer. Fiscal uncertainty makes it harder for boards and investors to judge what a deal is worth, and weaker managers can take advantage of that. Acquisitions announced when public debt is rising deliver lower returns to the acquiring company's shareholders and smaller combined gains for the two companies, and the acquirers tend to have weaker governance.

Most of this evidence comes from the United States, but most Australians are exposed to this dynamic whether they realise it or not. Through their superannuation funds, they own a large slice of US and other global companies, where government debt has been rising for years. The direct effect at home may be more muted, because a large share of Commonwealth bonds is held offshore. Heavier public borrowing still has to be absorbed somewhere, however, and with federal and state governments both borrowing heavily, the question of how the debt will be repaid is as live here as anywhere.

What it means for investors

Four implications stand out.

First, be cautious about counting on takeover upside. Bid activity is one of the ways shareholders in smaller and mid-sized companies get rewarded. When public borrowing is rising, the evidence suggests there are fewer bidders around.

Second, look harder at acquisitive companies. When a company announces a large acquisition during a period of rising public debt and fiscal uncertainty, the historical record says buyers' shareholders tend to do worse. That's a reason to scrutinise the price paid, the strategic logic and the board's track record more closely than usual.

Third, the 'safe' end of the market is not insulated. It is natural to assume high-quality companies ride out fiscal pressure best. On financing and investment, the research suggests they feel the squeeze the hardest, because they compete most directly with government bonds for investors' money.

Fourth, watch for fiscal clarity, not just the size of the debt. Part of the damage comes from not knowing how the bill will be paid. A clear, credible plan for stabilising debt, whichever mix of tax and spending measures governments choose, would reduce that uncertainty well before the debt itself falls. Budget updates and statements that bring that clarity are worth reading as closely as an RBA decision.

To be clear, government borrowing is not always harmful. Borrowing that funds productive infrastructure or supports the economy during crises can generate benefits that could outweigh these crowding-out effects. But it does mean that the price of borrowing is higher than the interest bill suggests. Franco Modigliani, who went on to win the Nobel Memorial Prize in Economic Sciences, argued in 1961 that public debt leaves future generations with less private capital. Modern takeover evidence now suggests the burden doesn't wait that long. The impact can appear today through weaker corporate investment, fewer takeover opportunities and poorer acquisition outcomes.

Dr Ruchith Dissanayake is a Senior Lecturer in the School of Economics and Finance at [QUT Business School](#). He is a Chief Investigator on an [AHURI](#)-funded research project on housing supply, and Principal of BID Capital, a Brisbane mortgage and finance brokerage.

This article is general information only and does not consider the circumstances of any individual. The views expressed are the author's own.

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When do fundamentals matter?

Joe Wiggins

When people describe the reason for share price moves or shifts in bond yields, it is almost always in fundamental terms. As if every time a new piece of market-relevant information is released, investors are hurriedly updating their valuation models. This gives a pleasing sense of order to the fluctuations of financial markets, but is a poor explanation for what is really happening. Most market moves are about investors guessing what other investors are going to do.

Let's say there is a weak employment number in the US, and the S&P 500 drops by 1%. Is that a result of investors reassessing the fair value of US equities due to an increasing risk of slower growth? Maybe. But it is more likely to be investors reacting to how they think other investors will respond to this new information.

Markets – particularly over the short term – are much like what was traditionally called a 'Keynesian Beauty Contest' or a guessing game where you win not by guessing the right answer, but what you think others will say the right answer is.

Does this behaviour have anything to do with changes in the fundamental worth of an asset? Yes and no. If investors are predicting how other investors will react to new fundamental information, then they indirectly care about fundamentals. However, they don't have to. If they are just trying to predict other investors' actions, they care about whatever signals those investors might respond to at that time. These could be relevant to the asset's long-term value or not at all.

Also, if most people are involved in the same guessing game, then it is not necessary to predict how other investors will react to new information, but what other people in the game expect other people in the game to be doing. (It can get very circular.)

We can easily end up with a market where nobody is paying any attention to fundamentals; everyone simply acts as if everyone else is.

While a lot of market activity has little to do with genuine fundamental changes in the value of an asset, and even when it does the connection is indirect. However, this type of 'guessing game' behaviour can, however, impact fundamentals, if we bring in Soros' concept of reflexivity.

Here, significant movements in price (whatever the cause) can affect fundamentals or 'reality'. Imagine French government bond yields are being pushed higher by investors guessing that other investors will react to a worsening fiscal situation and higher inflation. This investor-led price move can morph into a profound fundamental problem as these higher yields create higher debt service costs and increasing political pressure.

Although they can often feel entirely distinct, asset prices and fundamentals are not entirely independent of each other.

The fundamentals will out

If most fluctuations in markets are not driven by investors changing their views on the fundamental value of an asset, does that mean they don't matter? I don't think so. They are important in a variety of different ways and over different horizons:

- To the extent that investors playing the guessing game care about fundamentals (often they don't) then fundamentals matter even if indirectly.
- In certain situations, reflexivity can take hold which means non-fundamental price moves create fundamental issues.
- In extreme situations fundamentals tend to rise to prominence – for example, when a company is in distress its fundamental worth (or lack of worth) will matter a great deal to the price of its debt and equity.
- Over the long run, fundamentals will likely win out in defining the return of an asset. Although changes in fundamental value may tell us little about an individual short-term price move, fundamentals should be the most important element over long horizons.

When we read fundamental explanations for why markets have behaved in a certain way, it is rarely an accurate reflection of why prices have moved. Over most short horizons it is not fundamental changes in the worth of an asset that matter, but investors guessing how they think other investors will react to new information they currently deem important. At times this might be related to fundamentals, but very often it will not be.

To be successful taking these types of short-term views, we need to somehow be able to predict what issues investors are currently focused on, how these issues will play out and how other investors will react to them. This is a tough ask.

For long-term investors, the fact that short-term market moves are largely the result of investors chasing each other around shouldn't be a major concern. That is not a game we need to play. We just need to avoid being fooled into thinking that every daily or monthly price move reflects a meaningful change in an asset's fundamental value.

All opinions are my own, not that of my employer or anybody else. I am often wrong, and my future self will disagree with my present self at some point. Not investment advice.

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