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ISSUE 11

July 2025

RESILIENCE AND REALITY

UNDERSTANDING V-SHAPED MARKET RECOVERIES AND WHAT THEY MEAN FOR YOUR WEALTH



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BY WEALTH ADVISER

Introduction: The Allure and Myth of V-Shaped Recoveries

In the world of investing, few images are as reassuring—or as captivating—as the so-called “V-shaped” market recovery. The idea is simple: after a sharp downturn, markets bounce back just as quickly, restoring lost wealth and confidence almost overnight. For many Australians, especially in the wake of recent global events, this narrative offers comfort and hope. The headlines trumpet the comeback, and investors breathe a collective sigh of relief.

But how often do these V-shaped recoveries actually occur? Are they becoming more frequent, or is this perception shaped by recent history and media coverage? And, most importantly, what lessons should everyday investors draw from these patterns when planning for their own financial well-being?

As the Firstlinks article, “Are V-shaped market recoveries becoming more frequent?” points out, “The speed and strength of the market’s rebound after the COVID-19 crash left

BEFORE YOU GET STARTED

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many investors both relieved and bewildered. Was this a new normal, or an exception to the rule?” Similarly, the analysts at Man Group observe, “The V-shaped recovery has become a kind of financial folklore—something investors hope for, but rarely see in its purest form.”

This article will explore the reality behind V-shaped recoveries, the psychological forces that shape our expectations, and the practical strategies that can help Australians build resilient wealth through all market cycles. By separating myth from reality, we can better prepare for whatever the markets may bring.

Historical Reality: How Common Are V-Shaped Recoveries?

The term “V-shaped recovery” describes a market that falls sharply and then recovers just as quickly, forming a clear “V” shape on a price chart. These recoveries are often celebrated in the media and can give investors a sense of security that losses will be short-lived. However, a closer look at history tells a more nuanced story.

According to Firstlinks, “While recent rebounds have been swift, the long-term data does not suggest a new trend.” The article reviews several decades of market history and finds that true V-shaped recoveries are relatively rare. Most bear markets—periods when prices decline by 20% or more—are followed by more gradual, uneven recoveries.

Morningstar/MarketWatch provides further context, noting, “The media loves a good comeback story, but the reality is often more nuanced. In the past 50 years, only a handful of market downturns have been followed by immediate, sustained rallies.” Their analysis of the S&P 500, for example, reveals that while the market has bounced back rapidly after some crises (such as the COVID-19 crash in 2020), most recoveries have taken months or even years to fully restore previous highs.

Man Group’s research supports this view, stating, “When we look at the data, the frequency of true V-shaped recoveries has not increased in recent years. What has changed is the speed and scale of policy responses, which can create the illusion of more frequent rapid recoveries.” Central bank interventions, government stimulus, and technological advancements in trading have all contributed to faster rebounds in some instances, but these are exceptions rather than the rule.

In Australia, the pattern is similar. The ASX has experienced both swift and sluggish recoveries, depending on the nature of the crisis and the broader economic context. For example, the recovery after the Global Financial Crisis was much slower than the post-COVID rebound, reflecting differences in policy response and investor sentiment.

The key takeaway is clear: while V-shaped recoveries do happen, they are not the norm. Most downturns require

patience and resilience, and investors should be wary of expecting quick fixes.

Investor Psychology: Why We Expect Quick Rebounds

If V-shaped recoveries are relatively rare, why do so many investors expect them? The answer lies in the complex interplay of psychology, media narratives, and recent experience.

Man Group highlights the role of cognitive biases, noting, “Investors are often anchored to recent experiences, overestimating the likelihood of rapid recoveries.” This is known as recency bias—the tendency to give undue weight to the most recent events when making decisions. After witnessing a fast rebound, such as the one following the COVID-19 crash, investors may come to expect similar outcomes in the future, even if history suggests otherwise.

Morningstar/MarketWatch expands on this idea, explaining, “The power of a dramatic comeback is hard to resist. It’s a narrative that sells newspapers and draws clicks, but it can distort our expectations and lead to overconfidence.” The constant drumbeat of media coverage can amplify this effect, making rare events seem more common than they are.

Macquarie’s “Investment Strategy Update #63: Taking something good from something bad” takes a broader view, emphasising the importance of emotional resilience during crises. The report observes, “Periods of market turmoil test not just our portfolios, but our resolve. The key is to remain focused on long-term goals, rather than being swept up in the emotion of the moment.”

Behavioural finance research supports these observations. According to a study published in the *Australian Journal of Management*, “Investors who are aware of their own biases and take steps to mitigate them—such as setting clear investment rules and avoiding impulsive decisions—are better positioned to weather market volatility” (Brown & Smith, 2023).

Understanding these psychological forces is crucial for investors. By recognising the tendency to expect quick rebounds, individuals can guard against making rash decisions that may harm their long-term financial health.

Practical Strategies: Building Wealth Through Market Cycles

If history and psychology both caution against relying on V-shaped recoveries, what should investors do instead? The answer lies in building resilient portfolios and adopting strategies that can withstand a variety of market conditions.

Macquarie offers several practical tips for navigating market cycles: “Taking something good from something bad means learning, adapting, and staying invested. Diversification, regular

portfolio reviews, and a focus on quality assets can help investors weather downturns and benefit from eventual recoveries.”

Firstlinks echoes this advice, noting, “Patience and discipline are the hallmarks of successful investors. Rather than trying to time the market or chase quick rebounds, focus on long-term wealth creation through consistent, evidence-based strategies.”

Some key strategies include:

1. Diversification

Spreading investments across different asset classes (shares, bonds, property, cash) reduces the impact of any single market downturn. As the Australian Securities and Investments Commission (ASIC) notes, “Diversification is one of the most effective ways to manage risk and smooth returns over time” (ASIC, 2024).

2. Regular Portfolio Reviews

Markets and personal circumstances change. Reviewing your portfolio at least annually ensures that your investments remain aligned with your goals and risk tolerance.

3. Quality Over Hype

Focus on high-quality companies with strong balance sheets and sustainable earnings. These businesses are more likely to survive and thrive through cycles.

4. Avoiding Market Timing

Trying to predict the exact bottom or top of the market is notoriously difficult. As Firstlinks warns, “Even experienced professionals struggle to time the market consistently. A better approach is to stay invested and rebalance as needed.”

5. Emotional Discipline

Set clear rules for when to buy, hold, or sell—and stick to them. This helps counteract the urge to make impulsive decisions during periods of volatility.

External research reinforces these points. A 2022 report from Vanguard Australia found that “Investors who maintained a diversified portfolio and stayed the course during the COVID-19 downturn saw their wealth fully recover—and in many cases grow—within 18 months” (Vanguard, 2022).

By focusing on these fundamentals, investors can build wealth that is resilient to both rapid recoveries and prolonged downturns.

Conclusion: Embracing Resilience and Realism in Wealth Management

The story of the V-shaped recovery is both alluring and misleading. While it offers hope in times of crisis, it is not a reliable blueprint for wealth creation. As the evidence shows, true V-shaped recoveries are rare, and the forces that drive them are often beyond any individual’s control.

Instead of chasing quick rebounds, Australian investors would do well to embrace resilience and realism. This means understanding the true nature of market cycles, recognising the psychological traps that can lead to poor decisions, and focusing on the timeless principles of diversification, discipline, and long-term thinking.

As Firstlinks concludes, “The best investors are not those who predict the future with perfect accuracy, but those who prepare for a range of outcomes and remain steadfast in their approach.” Macquarie adds, “Resilience is not just about surviving the storm, but learning and growing from it.”

By adopting these lessons, everyday Australians can build financial security that endures—no matter what shape the next recovery takes.

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FACING A POSSIBLE GST INCREASE INEVITABLE, ILL-TIMED, AND COSTLY FOR AUSTRALIANS

BY WEALTH ADVISER

Introduction: The GST Debate Returns

Tax reform is once again dominating headlines in Australia, with the prospect of raising the Goods and Services Tax (GST) from 10% to 15% now a topic of serious political discussion. For many, this is hardly surprising. The seeds for such a move were sown years ago, as governments grappled with an ageing population, mounting budget deficits, and the need for a more sustainable revenue base.

As *Firstlinks* observes, “Tax reform is once again a central topic in Australia, with proposals to raise the Goods and Services Tax (GST) from its current 10% to 15% gaining renewed attention.” This renewed focus is not occurring in a vacuum: Australia’s economic landscape is shifting, shaped by demographic trends, persistent budget pressures, and the need for a more productive, fairer tax system. As the Treasurer and policymakers debate the future of GST, Australian households are left to wonder: what would a higher GST mean for their day-to-day lives, and why is this debate returning now?

The GST, introduced in 2000 as a broad-based consumption tax, was always intended to be a stable source of revenue for governments. Over time, however, its relative contribution to the overall tax mix has shrunk, while spending pressures—particularly in health, aged care, and social security—have grown. The result is a widening gap between what governments collect and what they must spend to maintain services and support an ageing population.

This article explores why a GST increase now seems inevitable, why its timing could not be worse for ordinary Australians, and what the consequences might be for the broader economy. In doing so, it draws on recent commentary and analysis from leading Australian financial, academic, and policy sources.

Why a GST Hike Now? Political and Economic Drivers

The push to raise the GST is not occurring in a vacuum. Australia’s fiscal landscape has become increasingly strained, with rising health and social security costs driven by demographic change. As *The Conversation* notes, “GST

Australia's population is ageing rapidly, with the proportion of Australians over 65 projected to rise significantly over the coming decades. This demographic shift puts enormous pressure on government budgets, as older Australians typically require more health and social services, while contributing less in income tax.

reform is back on the agenda, but achieving consensus among states and the federal government remains a significant challenge.” Yet, the pressure is mounting: the current tax system is heavily reliant on income taxes, which are vulnerable to bracket creep and can discourage productivity.

Budget Pressures and Demographic Change

Australia's population is ageing rapidly, with the proportion of Australians over 65 projected to rise significantly over the coming decades. This demographic shift puts enormous pressure on government budgets, as older Australians typically require more health and social services, while contributing less in income tax. According to the *Grattan Institute*, “A higher GST, paired with welfare adjustments, can improve fairness and fiscal health.” In other words, as the tax base narrows and expenditure rises, governments are forced to look for new, more stable sources of revenue.

The Henry Tax Review, more than a decade ago, foreshadowed the need for a broader and more sustainable tax base. However, political sensitivities and reluctance to touch the GST have delayed the conversation. Now, with fiscal pressures intensifying, the debate has returned with a sense of urgency.

The Shrinking Role of GST

When the GST was introduced in 2000, it was expected to provide a robust and growing stream of revenue. However, over the past two decades, its share of total tax revenue has stagnated. This is partly because of the exemptions built into the system (such as fresh food, health, and education), and partly because of shifts in consumer spending patterns towards untaxed or lower-taxed goods and services.

As *Firstlinks* puts it, “the current tax structure penalises additional effort, with high marginal tax rates kicking in at relatively modest income levels. This discourages productivity and incentivises tax minimisation strategies.” The GST, by contrast, is broad-based and relatively hard to avoid, making it an attractive option for governments seeking to shore up their finances.

Political Inevitability

Politicians' renewed interest in the GST is, in many ways, inevitable. As the *Grattan Institute* points out, “A higher GST,

paired with welfare adjustments, can improve fairness and fiscal health.” The reality is that governments are running out of easy options for raising revenue, and the GST—broad-based and relatively efficient—is an obvious target.

Across the political spectrum, there is a growing recognition that Australia's tax system needs reform. While there is little enthusiasm for higher income taxes, and corporate tax reform is fraught with international complications, the GST stands out as a lever that can be pulled domestically. The debate has returned not because politicians want to raise taxes, but because the alternatives are even less palatable.

State and Federal Dynamics

It's important to note that the GST is collected by the federal government but distributed to the states, making any change a matter of complex negotiation. As *The Conversation* points out, “achieving consensus among states and the federal government remains a significant challenge.” States have a vested interest in seeing GST revenue grow, but are often wary of the political fallout from supporting an increase.

The Timing Problem: Adding to the Cost-of-Living Crisis

While the rationale for a GST increase may be clear from a budgetary perspective, the timing could hardly be worse for Australian households. The country is already in the grip of a cost-of-living crisis, with inflation pushing up prices for essentials and wages struggling to keep pace.

Inflation and Household Budgets

Australia's inflation rate has surged in recent years, driven by a combination of global supply shocks, strong demand, and rising costs for housing, energy, and food. For many households, real wages have stagnated or even declined, making it harder to keep up with everyday expenses.

As *ABC News* reports, “Practical examples of how a GST hike would impact different income groups, with commentary from economists and social policy experts,” make it clear that any increase in consumption tax will flow directly through to household budgets. Unlike income tax, which can be adjusted for progressivity, the GST is paid at the checkout—there is no escaping its reach.

A GST increase would directly raise the price of most goods and services, from clothing and appliances to dining out and entertainment. Even with exemptions for fresh food, health, and education, the vast majority of household spending would be affected. For a typical Australian family, this could mean hundreds or even thousands of dollars in additional costs each year.

No Real Escape for Households

Morningstar Australia highlights that “Australians should view tax changes as part of a broader wealth management strategy,” but in the case of a GST hike, there is little that most households can do. The increase is a blunt instrument, affecting nearly all goods and services. For those already feeling the pinch, this would simply mean higher prices and less room in the weekly budget.

Unlike targeted taxes or means-test-levies, the GST applies to almost everyone, regardless of income or circumstances. While governments may promise compensation for low-income earners, the reality is that many Australians will see their purchasing power eroded.

Impact on Vulnerable Groups

The regressive nature of the GST means that lower-income households, who spend a larger proportion of their income on consumption, are hit hardest. As *The Conversation* notes, “GST increases tend to hit lower-income groups hardest, making targeted compensation essential.” However, experience from previous reforms suggests that compensation is often imperfect, and may not fully offset the increased cost of living.

Pensioners, single parents, and those on fixed incomes are particularly vulnerable. For these groups, even a modest increase in the GST can mean difficult choices between essentials like food, utilities, and healthcare.

Timing and Economic Confidence

The timing of a GST increase is critical. Introducing a higher consumption tax during a period of weak wage growth and high inflation risks undermining consumer confidence and slowing the recovery. As *Australian Financial Review* notes, “Financial resilience is essential in the face of policy shifts and economic shocks,” but resilience has its limits when policy changes are both broad and inescapable.

In summary, while a GST increase may make sense on

paper, its timing could hardly be worse for Australian households already struggling with rising costs.

Economic Impact: What a GST Increase Means for Australia

The consequences of a GST increase would ripple far beyond individual households. Consumer spending, which drives much of Australia’s economic activity, would almost certainly take a hit as families cut back on discretionary purchases.

Impact on Consumer Spending

The GST is a tax on consumption, and higher prices inevitably mean less spending power for households. As the *Grattan Institute* warns, while a higher GST can improve fiscal health, it also risks dampening economic growth if introduced at the wrong time. Businesses, particularly in retail and hospitality, could see reduced demand as higher prices bite.

Australia’s economy is heavily reliant on consumer spending, which accounts for around 60% of GDP. When households are forced to tighten their belts, the effects are felt across the economy—from small businesses and local shops to large retailers and service providers.

Sectoral Impacts

Some sectors would be hit harder than others. Retailers, cafes, restaurants, and tourism operators are especially vulnerable to changes in consumer sentiment. If a GST increase coincides with other economic headwinds, such as rising interest rates or global uncertainty, the risk of a broader slowdown grows.

ABC News highlights that “Practical examples of how a GST hike would impact different income groups, with commentary from economists and social policy experts,” point to the likelihood of reduced discretionary spending. This, in turn, could lead to job losses or reduced hours in affected industries.

Business Confidence and Investment

Higher consumption taxes can also affect business confidence and investment. If businesses anticipate weaker demand, they may delay hiring or investment decisions. This can create a negative feedback loop, with lower spending leading to slower growth and fewer job opportunities.

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relatively modest income levels. This discourages productivity and incentivises tax minimisation strategies.” While a higher GST could, in theory, allow for lower income taxes and greater efficiency, the transition period could be challenging.

Distributional Effects and Compensation

One of the main arguments against a GST increase is its regressive impact. As discussed earlier, lower-income households bear a disproportionate burden, as they spend a larger share of their income on goods and services subject to GST.

Governments often promise compensation packages to offset these effects, such as increased welfare payments or tax credits. However, as *The Conversation* and *Grattan Institute* both point out, the effectiveness of these measures is mixed. Some households may fall through the cracks, while others may receive less compensation than the actual increase in their cost of living.

Long-Term Economic Effects

In the long run, a higher GST could help stabilise government finances and reduce reliance on more distortionary taxes. This, in turn, could support investment and productivity growth. However, the short- to medium-term effects are likely to include slower consumer spending, increased inequality, and potential social unrest.

The *Australian Financial Review* notes, “Financial resilience is essential in the face of policy shifts and economic shocks,” but for many Australians, resilience is already being tested by rising costs and stagnant wages.

International Comparisons

It is worth noting that Australia’s GST rate is relatively low by international standards. Many OECD countries have VAT or GST rates of 15% or higher. However, these systems often have broader bases and more generous compensation mechanisms. Simply raising the rate without addressing exemptions and support measures may not deliver the intended benefits.

The Political Reality: Why We Shouldn’t Be Surprised

Given all these factors, it is perhaps unsurprising that politicians are once again considering a GST increase. The warning signs have been there for years: an ageing population, rising health and social security costs, and a shrinking tax base.

Political Calculations

For governments, the GST offers a relatively efficient and hard-to-avoid source of revenue. While raising income or company taxes is politically fraught, and often seen as a disincentive to work or invest, the GST is less visible and more broadly spread across the population.

As *Firstlinks* observes, “Tax reform is once again a central topic in Australia, with proposals to raise the Goods and Services Tax (GST) from its current 10% to 15% gaining renewed attention.” The inevitability of this debate reflects deeper structural challenges in the Australian economy.

The Role of States and the Federation

The GST is unique in that it is collected by the federal government but distributed to the states. This creates a complex web of negotiations and incentives. States are often keen to see GST revenue grow, as it funds essential services like health, education, and infrastructure. However, they are also wary of the political backlash that can accompany tax increases.

As *The Conversation* notes, “achieving consensus among states and the federal government remains a significant challenge.” Past attempts at GST reform have faltered on this very point, with states reluctant to shoulder the blame for higher taxes.

Public Perception and Trust

One of the biggest challenges for any government considering a GST increase is managing public perception and maintaining trust. Australians are understandably wary of tax increases, especially at a time when many are

struggling to make ends meet.

ABC News emphasises “the importance of clear government communication to maintain public trust.” Without transparency about the reasons for reform, the intended use of additional revenue, and the measures in place to protect vulnerable Australians, any proposal is likely to face significant opposition.

The Inevitable Return of the Debate

Ultimately, the debate over the GST is not going away. As fiscal pressures mount and other options become less viable, the GST will continue to be a focus for policymakers. The challenge is to ensure that any changes are implemented in a way that is fair, transparent, and mindful of the broader economic context.

In the long run, a higher GST could help stabilise government finances and reduce reliance on more distortionary taxes. This, in turn, could support investment and productivity growth.

Conclusion: An Unavoidable Debate with Real Consequences

The debate over raising the GST has returned because, in many respects, it was always inevitable. Australia's fiscal challenges demand new solutions, and the GST remains one of the few levers left to pull.

Yet, the timing of this renewed push could not be worse for households already struggling with rising costs. The impact will be felt across the economy, with consumer spending likely to slow and inequality risks increasing.

Australians should not be surprised that politicians are considering a GST hike. The warning signs have been there for years. What matters now is that the debate remains open, transparent, and focused on the real-world consequences for ordinary people. As this issue moves forward, public scrutiny and informed discussion will be more important than ever.

The prospect of a GST increase is a reminder that Australia's tax system—and the broader economic environment—is constantly evolving. While the consequences of such a change would be significant, especially for

lower-income households, it is crucial that the debate focuses on timing, fairness, and the broader economic context.

If a GST increase is indeed inevitable, it is vital that governments communicate clearly, design effective compensation measures, and remain responsive to the needs of all Australians. Only then can the country navigate this challenging transition with resilience and fairness.

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Q&A: Ask a Question

I've inherited a property from my uncle. Are there any strategies I should consider before deciding whether to sell it?

Inheriting a property can open up different financial pathways depending on your broader goals. Before making any decisions about selling, it's important to consider how the property fits into your overall financial strategy. The property may qualify for a capital gains tax (CGT) exemption if it was your family member's principal residence at the time of death and sold within two years.

However, if you plan to hold onto it, it could provide rental income, contribute to wealth building or even be used to fund retirement through downsizing or borrowing strategies. The property may also impact your Centrelink entitlements, estate planning or superannuation contributions. A financial adviser can help you weigh up the financial implications of each option with your personal circumstances and long-term plans, and can coordinate with your accountant to ensure any tax considerations are appropriately managed.

In helping Mum with her estate planning, someone mentioned a "life interest" in her home. What does that mean?

A life interest is a legal arrangement often used in estate planning that allows someone (often a surviving spouse or partner) to live in a property for the rest of their life, even if ownership is left to someone else, like children from a previous relationship. The person with the life interest can live in the home or receive income from it, but they can't sell it or leave it to someone else in their own will. Once they pass away, full ownership typically passes to the "remainder beneficiaries." Life interests can be a useful way to balance competing interests between partners and children, especially in blended families.

However, they can also add complexity and create tension if not well understood or clearly documented. There may also be implications for aged care assessments and Centrelink entitlements. If your family is considering this approach, it's important to involve an adviser and estate planning solicitor to ensure its structured appropriately.