Transcript
The Ideas Exchange - Episode 67

Cutting through the noise in today's markets

September 2026

Eliza McCarthy (00:00):
Hello and welcome to The Ideas Exchange, ASX's regular podcast where we cover investment trends, market updates, and ideas for your portfolio. My name is Eliza McCarthy, Business Development Associate from the Investment Products team here at ASX. And it is our mission to deliver to you the latest in market updates and ideas through the conversations we have with investment experts.

Speaker 2 (00:23):
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Eliza McCarthy (00:50):
Welcome to The Ideas Exchange podcast brought to you by ASX. I'm Eliza McCarthy, the ASX Business Development Associate for Investment Products. Investing has never been more accessible, yet investors have never had more information competing for their attention. From AI, interest rates, to geopolitical events, emerging technologies, and the latest market trends, there is a constant stream of news shaping how investors think about markets. But while staying informed is important, it can also make it difficult to remain focused on long-term investment goals.

(01:19):
Joining us today is Subash Pillai, Managing Director and Head of Investment Solutions APAC at Franklin Templeton. Today, we'll explore some of the behavioral challenges investors face, why emotions can influence investment decisions, how systematic investing seeks to bring discipline and consistency to the investment process, and why that approach may be particularly relevant in today's market environment. Subash, welcome to the podcast.

Subash Pillai (01:43):
Thank you. Pleasure to be here.

Eliza McCarthy (01:45):
All right, so let's jump right in to why investing is often harder than it looks, the behavioral challenge. So investors today have access to more information than ever before. Markets are constantly influenced by big themes, market commentary and

investor sentiment. Why can it be challenging for investors to stay focused on long-term objectives?

Subash Pillai (02:05):
It is quite the paradox in that, more information, it doesn't necessarily lead to better decisions. And in fact, it makes staying disciplined quite a lot harder. The information access you have today, and also the information overload creates a lot of noise, not necessarily insight. Then there's the fact that information is also pushed to you. So there's this inherent but less visible bias to everything that we consume today as opposed to decades ago.

(02:39):
The challenge therefore becomes filtering information, especially when the latest theme or a constant stream of social media that you're consuming risks taking your mind away from long-term wealth creation to either, this new great opportunity or this very large, big risk that should see you change what you do.

(03:02):
Challenge is that markets reward patience, but the media rewards immediacy. Investing is a long-term gain, but we're consuming it through a shorter and shorter lens. Financial media is naturally focused on what happened today, this week, this quarter, and also what happened that was surprising, right? We don't hear too much about the not so surprising stuff, the dull things. All we hear about is the great winners and the massive risks.

(03:32):
And this, again can upset that long-term creation that you want to have, that long-term focus on wealth creation that you want to have over years, not months, not days. And investors feel this urgency to change something, to either take advantage of ... Investor sentiment can be contagious. "Oh look, everyone's doing this. It's gone up," that recency bias. "Now's the time to chase that theme."

(04:04):
That delves into FOMO, right? Fear of missing out. "Well, everyone must be doing it because it's all over my socials." These are things to step back from and go, "What do I believe gives me the highest opportunity to meet my objectives over a long period of time? And is there really going to be a magical solution?"

(04:26):
And so for us, what's really, really important is to link investments to objectives. We find that the most successful investors start with their goals, not with a view or a headline. And what they're trying to work through and constantly keep in mind is, "What am I trying to achieve over a long period of time? What is the level of risk that I can tolerate in my portfolio? And how do I make decisions using a consistent framework, a consistent process?" as opposed to, "What do I feel works right now? What do I fear or need to address?" Those kind of emotional decisions.

Eliza McCarthy (05:12):
So you touched on FOMO there. And so to delve into that conversation, can periods of strong market enthusiasm sometimes cause investors to overlook underlying fundamentals?

Subash Pillai (05:23):
Absolutely, yes. So I mean, I think that the clearest ... There are two clear examples in recent time period that we can talk about, but what happens is that when you get this enthusiasm, when you get this constant commentary on every media that you're consuming, when that is pushed out to you as well, that feeling of, "This is a great theme. It makes a whole lot of sense," right? "Yeah, okay, artificial intelligence, fantastic. What are the boundaries? There must be none."

(05:59):
And what happens is your attention shifts away from questions like earnings, cash flows, valuations, the sustainability of competitive advantage, and it's because you feel all this can continue to go higher. It's that kind of, "This can continue to go higher, so I don't really need to satisfy myself." Remember that word process that we used earlier. "I don't really need to run this idea through my process."

(06:25):
This doesn't mean that there aren't wonderful opportunities in AI, but it means that all opportunities need to be assessed through a lens, a fundamental lens, assessing valuation, assessing the robustness of growth projections, et cetera, et cetera. And when you move away from that, that's when you are caught up in that enthusiasm, and it becomes more of a luck of the draw situation.

Eliza McCarthy (06:51):
Are there any notable examples from history where investor excitement became disconnected from the investment case?

Subash Pillai (06:56):
Oh, yeah. So I mean, I think our most recent example was the surge in meme stocks in 2020, 2021 and speculative growth companies. Investor enthusiasm then, social media especially, and abundant liquidity in markets at that point in time, it pushed many companies far beyond levels justified by underlying fundamentals.

(07:18):
What that was, was just a wall of buying that was indiscriminate because, "Buy it because others are buying it." Ultimately, in most cases, prices eventually reverted as earnings, cash flow again, became the focus. So this is when you had a period where stock prices of select stocks were so seriously taken away from any kind of fundamental underpinning.

(07:46):
Now that works along the way, but someone at the end of the day ends up buying at that high, and losses typically occur once these stocks come back to ground. The dot-com example's another one, but no need to really go into it.

Eliza McCarthy (08:02):
And so are there practical ways investors can reduce the influence of emotion when making investment decisions?

Subash Pillai (08:08):
It's really critical to separate the savings that you want to make that are focused on building your long-term goals, building against your long-term goals, trying to deliver against those goals. So have that in one bucket. And then to the extent that you have flexibility to save for a more active investment strategy, then do that as well.

(08:34):
Now with your long-term investment savings, your focus needs to be about identifying the strategy, the approach that gives you the highest probability of realizing realistic goals over time. This has got to be something that is not driven by hopes and dreams. It's not meant to be fun. You won't get there in a straight line. But with discipline, you will have a high prospect of achieving what you want to over time.

(09:02):
Typically, this involves investing in large groups of assets, global equities, Australian equities, fixed income, cash deposits, global fixed income, and for some, alternative assets. Now, stay true to your asset allocation. Don't tilt your asset allocation too much to try and take advantage of fad A or theme B. And that becomes the less interesting, but more aligned and more consistently aligned to what you're trying to achieve long-term.

(09:39):
Investors can have a secondary bucket, and that secondary bucket can be more to express views on themes or individual stocks that they love. But I would also encourage them to look at the returns on their long-term bucket and have that as the cost of engaging in their more shorter-term investing, which itself can be more engaging, more fun, more passion around it, but that passion shouldn't cost you in returns over time.

(10:09):
Monitor that over three to four years, adjust, but it's very, very hard to stay away from the excitement of investing. Investing does not exist to provide excitement. Investing, its primary goal is wealth creation, which is best done with a long-term mindset.

Eliza McCarthy (10:30):
Okay, so let's jump into systematic investing. For those who may be unfamiliar with the term, what exactly is systematic investing and how would you explain it to someone with little or no investment experience?

Subash Pillai (10:43):
So systematic investing is an approach that relies on data evidence and a consistent set of rules rather than emotions, opinions, or market predictions. It's grounded in research and in models that look to evaluate, frankly, thousands of investment opportunities, but against specific characteristics that have been identified to be associated with better return. And that can be things like quality, valuation, momentum, and profitability.

(11:21):
The goal with systematic investment isn't to remove human expertise, but to introduce greater consistency and discipline into the investment process. It's repeatable and it can help address some of the behavioral biases that often lead investors to make poor decisions at the wrong time.

(11:42):
So investors typically find systematic investing appealing, firstly because it removes some of that emotional decision-making. The process doesn't change if Trump levies tariffs. The process doesn't change if the oil price surges. In fact, many systematic approaches build portfolios that they try to have very limited exposure to other factors that they don't believe, typically explain the performance of individual equities.

(12:12):
The other advantage of systematic investing, and another reason why investors find it appealing is that your typical fundamental manager can only assess 50, 100, 200, 300 stocks, whereas a systematic strategy can basically invest the whole universe. We, for example, assess about 8,000 stocks every day because it is a simple set of rules applied consistently to that full universe.

(12:40):
So for many investors, the appeal of systematic investing is that it doesn't try to guess what markets will do, but what it does is apply proven investment principles consistently over time. It's your consistent worker in your portfolio.

Eliza McCarthy (12:56):
Okay. And so what is the history of systematic investing? How long has it been around?

Subash Pillai (13:00):
Systematic investing, it's the result of decades of research, initially in academia and increasingly by portfolio managers and the financial services industry more broadly. The research started in the '60s and '70s, really motivated to try and understand why some types of stocks outperform others over long periods of time. It was at this point in time where academics really had access to large data sets for the first time to be able to study stock returns.

(13:33):
Initially, the focus was on the market exposure, so notion of beta, but researchers soon discovered that certain company characteristics, factors, let's call them, appeared to

be associated with higher long-term returns. Rather than relying on intuition or stock picking, investors could identify and capture these characteristics across a large group of companies.

(13:57):
The first factor that was developed was value. It's one of the earliest, most researched, and researchers frankly found that companies trading at lower valuations versus earnings, so low price earnings, cash flow, book value, they tended to outperform more expensive companies, ones with higher price earnings, et cetera, over long periods of time.

(14:21):
The intuition for this factor was that investors often become too pessimistic about certain companies and then good businesses can sometimes be just overlooked. And so over time, valuation normalizes. The really high P/E companies de-rate, the really low P/E companies re-rate.

(14:42):
Quality as a concept was further extended by profitability, and this is where researchers found that highly profitable firms tended to outperform less profitable firms, even accounting for other factors. And so you see a greater focus on profitability, and a growth in profitability factors developed in the 1970s.

(15:07):
And then finally, a very common factor grouping that's utilized is sentiment or momentum. Academics found that markets don't completely incorporate new information immediately. What that means is that a stock that has some great positive news, yes, it adjusts upward, but it continues to adjust upward over time. So with sentiment and momentum, researchers observed that markets don't always incorporate new information immediately. So you get some good news and the stock price goes up on that day, but it continues to go up bit by bit by bit in weeks and months after.

(15:48):
And so this highlighted that if you're looking to buy a stock that has risen, it can continue to incorporate that good news in the period after you've purchased it. So this became known as momentum investing. That's broadened out.

(16:04):
So these days when people look at sentiment factors, they're looking at things like analyst revisions. Across the street, are many of the brokers increasing their expectations for earnings for individual companies? It's moved to studying price movement, investor positioning. It's also moved into looking at things like short interests or more alternative factors.

Eliza McCarthy (16:31):
All right, so let's jump into why systematic investing matters today. Do you think that current market environment strengthens the case for a systematic investment approach, and why?

Subash Pillai (16:40):
Systematic investing is very relevant today. I think one of the biggest advantages it has is that it introduces discipline at precisely the moments when emotions are likely to take over. And as we were talking about earlier, we have more of those moments right now. Markets are consistently influenced by headlines, geopolitics, shifts in sentiment. And during those periods, as we've discussed, it's so easy for investors to become overly optimistic or overly pessimistic.

(17:12):
Now, if you have part of your assets following a systematic strategy, you have some immunity in your overall portfolio against that getting caught up, that exuberance. And I think that that balance is really, really important.

(17:30):
The second reason for me that systematic investing is particularly pertinent today is that with AI and with its incorporation across the financial industry, it's opening up ways to get new sources of data, and new sources of data that we can utilize with the same degree of discipline.

(17:57):
So for example, you can now look at what is said about a company by its leaders and you can use that, the words that they say in speeches, in reports, and you can feed that through natural language processing techniques to form a view as to what that company is thinking on a major issue.

(18:22):
So for us, we look at this to consider the extent to which a company will pursue growth organically as opposed to look to buy in order to pursue growth. And that's really important because what research has found is that companies that serial acquirers tend to perform worse than companies that are really focused on organizing for internal growth.

(18:51):
Now, this is something that we used to estimate through a few numbers on the balance sheet, but we're able to augment that with this new approach using natural language processing. So there are new ways in which quality systematic managers are utilizing tools that we have today to find deeper insight, and I think that's really exciting.

Eliza McCarthy (19:16):
Yeah, that's definitely exciting. And I think that does kind of answer this question already, but how can a systematic approach help identify opportunities beyond the most widely discussed areas of the market?

Subash Pillai (19:27):
The first thing about that is we cover more stocks, and all systematic equity strategies cover more stocks. So if we were to look at MSCI ACWI, there are several thousand stocks. You can have lots of analysts, they can't cover them all. They're going to get tired. We don't get tired when we're running scoring. That's being done, essentially by computers. And as long as we will score anything that has quality liquidity and all of the data sources available, right? We want good data and we want to know that if we form a view on a stock, that it didn't trade three Thursdays ago.

(20:07):
So once we filter that, we can form views on such a broad range of stocks. That helps us discover less obvious themes because we're not focused on the core group of large mid-cap names. And so we can see different things that are happening in markets that maybe aren't happening when you have a smaller opportunity set when you're working it. So I think that helps us pick up on little other options and little additional ways to drive return.

(20:43):
Now, fundamental investing still has the benefit of taking relatively large bets, and if you get something right, a great fundamental manager, if they get something right, they're going to be rewarded far more than a profitable trade from a systematic approach.

Eliza McCarthy (21:01):
So let's talk specifically about the Franklin Global Systematic Equity Fund Active ETF trading on ASX under ticket code FGSE. What is the objective of the strategy?

Subash Pillai (21:13):
So our objective is to earn an after-fee return in excess of the MSCI World ex Australia, net dividends reinvested in Aussie dollars over rolling three-year time periods. Put simply, that means we want to beat the index over three-year rolling time periods.

(21:31):
Now, we are going to be investing in global equities as the index suggests, and this is going to give you exposure to diversified stocks across the world, whether or not it's IT in the U.S., whether it's healthcare in Europe, whether or not it's industrials and financials. This is going to give you broad exposure to the biggest companies in the world outside of Australia.

(22:00):
Now, what we want to do is to use our systematic equity process to help make better decisions with an objective of delivering over rolling three years, excess returns. And we want to build a portfolio that is robust in terms of its risk control. We want our factors to drive outcomes, not other factors that we don't have a view on.

(22:26):

So this is where I talked earlier about not the price of gold moving or oil falling, et cetera, et cetera. So how do we do this? Well, firstly, we need to build a representative portfolio. So you'll find, and our index has around 1,250 stocks. We have about 150 stocks, sometimes a little bit more, sometimes a little bit less. We score each and every name that passes our liquidity and data availability filters, and we can score them every day. And we score them against four groups of factors, quality, value, sentiment, and alternatives.

(23:03):
When we think about value add, a key value add that we have is our factor definitions that reflect a heap of research done by our large team operating across the world. When we do all of the scoring, we then look to favor securities that have more attractive pricing, better fundamentals, like earnings yield and profitability, and ideally companies that also have this positive catalyst.

(23:32):
So a positive catalyst could be improving sentiment. It could be improving earnings expectations, for example. It could also be something like an absence of short interest. And from these aspects, we put together a composite score covering quality, value, and sentiment as well as some alternative factors, like short interest.

(23:56):
We then build a portfolio which gives us a biased exposure towards the better names, to have less exposure to the poorer names. But we are all about batting average. We're not about hitting fours and sixes if this was cricket. So we don't just go and buy the top 20 stocks that have the highest score. Rather, what we want to do is we want to have lots of little bets.

(24:24):
Typically, you'll find in our portfolios, most securities held are within plus or minus 1% of the index weight. When you do that, you can have 40, 50 bets in your portfolio, 40, 50 stocks where you have a reasonable position. And the way that we tend to generate alpha is by having a hit rate of 60% more often than a hit rate of 40%. And so through this approach, we actually take modest levels of active risk. So yeah, it's the ones and twos, again, if I were to stick with a quicker analogy.

Eliza McCarthy (25:08):
Yes. Consistency is key. So where could a strategy like this potentially fit with an investor's broader portfolio, and who do you believe could benefit most from this type of investment approach?

Subash Pillai (25:19):
So this is a great strategy for someone's global equity component, and it doesn't favor one person or another person per se. It's a very suitable core allocation. So global equities is one of the largest asset classes. It makes a truckload of sense to have global equities in your portfolio. You are exposing yourself to the largest, most successful companies worldwide.

(25:52):
So you want to have that asset class. Most of us will want to have that asset class unless we are extremely risk-averse. So within global equities, we bring the advantage of, one, staying very true to the nature of the asset class. And then two, through our track record and through our process, giving investors a good chance to be able to deliver some alpha, some excess return. We're also, typically at a price point that is lower than fundamental approaches and not that much above passive exposures.

(26:36):
So we think it fits well within most investors that are seeking to have global equities, but we don't believe, and we certainly don't advocate that it should be the only approach to active equities. Fundamental strategies can be a very strong complement where investors identify managers that, they believe have got skill that is likely to endure.

(27:01):
And for more cost-conscious investors, they may wish to blend systematic with passive investment approaches. But I think it's a very sensible approach to be considered by investors in the asset class.

Eliza McCarthy (27:15):
And so now to rapid fire. What's the biggest investing myth you'd like to see disappear?

Subash Pillai (27:21):
Biggest myth, that successful investing is about predicting the future. Most long-term success comes not from accurately forecasting markets, but from having a disciplined process, staying invested, and allowing compounding to work over time.

Eliza McCarthy (27:41):
So I guess that leads into the next one. What's one habit successful long-term investors tend to have in common?

Subash Pillai (27:47):
Remaining disciplined and taking advantage when others become emotional. The most successful long-term investors, they stick to their philosophy. They stick to their process. They don't change all the time. They don't change on single occurrences.

Eliza McCarthy (28:04):
Philosophy over feelings. So what's one thing investors should pay less attention to?

Subash Pillai (28:10):
Oh, easy. Daily market headlines and predictions, and anything pushed out to you on your socials. So for example, I'm getting a lot of suggestions that I should be doing options trading from TikTok. I don't ... No. Yeah.

Eliza McCarthy (28:26):
And what's one thing investors should focus on more?

Subash Pillai (28:29):
Factors that they can control. Honestly, the best thing to concentrate on is your ability to save. How well-diversified you are. How much you're paying, not just paying your fund managers, but how much you're paying for every app that you might be subscribing to, to help you "invest".

(28:52):
Yeah, I would be focused on what you can control, and you can control how much you save, you can control how much you spend to help you "invest". And you can also control and monitor the costs that you are paying for professional investment management.

Eliza McCarthy (29:11):
So the final question today, if investors remember one thing from today's discussion, what should it be?

Subash Pillai (29:17):
Successful investing isn't about being the smartest person in the room. It's about having a disciplined investment process and sticking with it through good and bad times.

Eliza McCarthy (29:28):
Subash, thank you for joining us and sharing your insights today. For listeners who would like to learn more about Franklin Templeton and the Franklin Global Systematic Equity Fund Active ETF, speak to your financial advisor or visit Franklin Templeton's website for fund information, the relevant product disclosure statement, target market determination, and investment resources.

(29:50):
You can also visit the ASX website and search for ticket code FGSE. Thank you for listening to The Ideas Exchange podcast. Until next time.

Subash Pillai (30:01):
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Speaker 2 (31:45):
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