

**EPISODE
433**

DIRECT INDEXING: YOUR PORTFOLIO, YOUR RULES



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Each new way of packaging the market fixed one problem and created another

1920s–30s

Individual stocks

+ You own and control every holding

– Expensive to trade, hard to diversify

1970s–80s

Managed funds

+ Diversification in one purchase

– High fees, manager risk

2000s

Index funds

+ Market return at low cost

– One portfolio for everyone

2010s

ETFs

+ Low cost, trades like a share

– Pooled: no say in holdings or tax timing

2020s

Direct indexing

+ Index diversification, owned directly

+ Screens, tilts and parcel-level tax control

Direct indexing became practical once trading got cheap and portfolio systems could run hundreds of positions per client.

What are indexes

GLOBAL

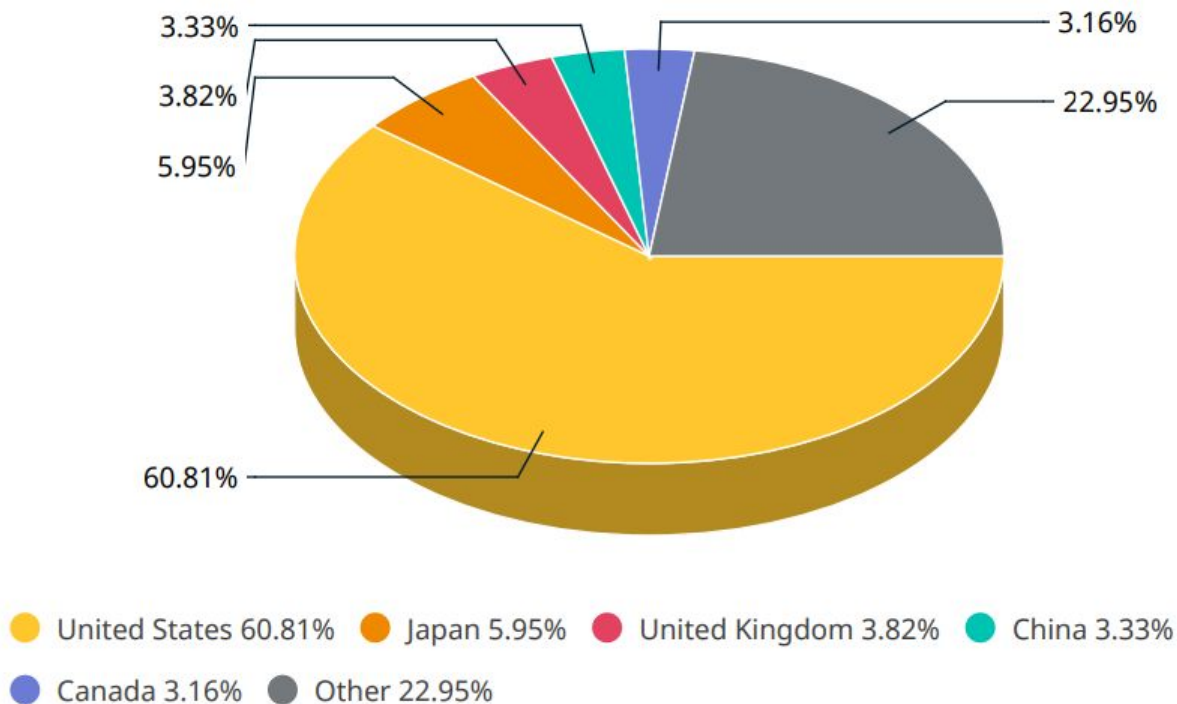
- **Biggest Providers:** MSCI, FTSE, S&P. Lots of overlaps.
- **MSCI World:** ~1,600 stocks □ ASX 60. Developed Countries only.
- **MSCI Emerging Markets:** ~800 stocks
- **MSCI IWI:** ~9,000 stocks □ ASX 220.

COUNTRY

- **US:** S&P 500, Russell 2000
- **UK:** FTSE 100
- **Europe:** Stoxx 600, Dax, CAC
- **Dow (US) Nikkei 225 (Japan)** are price weighted, different, arbitrary

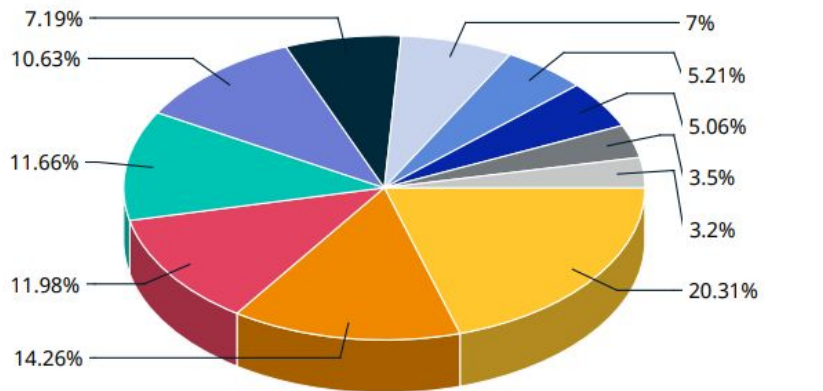
What are indexes

COUNTRY WEIGHTS

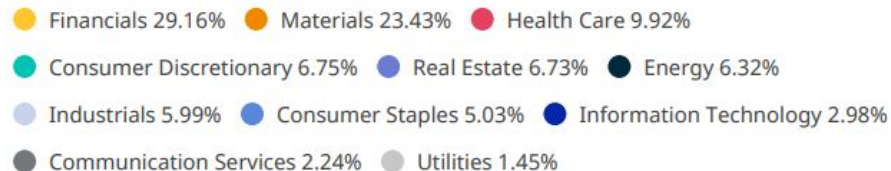
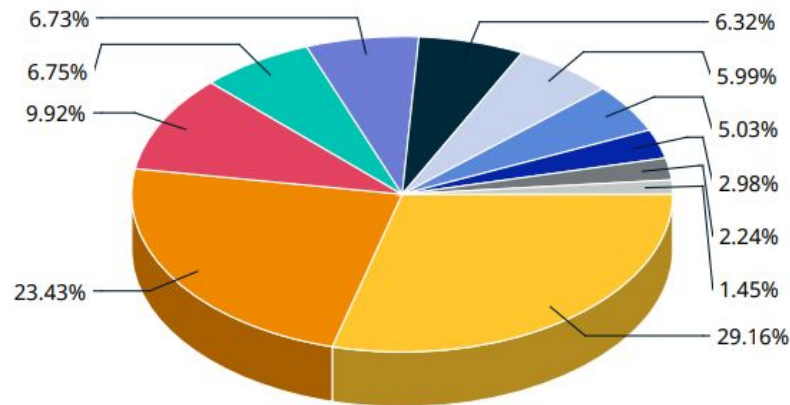


What are indexes

GLOBAL



AUSTRALIA



Unbundle a global ETF and the same money becomes 75 companies you own

BEFORE

Global shares ETF

1 holding · 1 price



AFTER: GLOBAL LEADERS 75



Each segment is to scale: its width is that company's share of your money.

47%

of Global Leaders 75 sits in seven US tech companies

11.2%

in NVIDIA alone

Top seven weights from the Nucleus portfolio preview, Global Leaders 75 at 100%, Oct 2026.

Unbundling the ETF · General information only · Figures illustrative unless stated

Screen out what you don't want to own, and stay fully invested

No Fossil Fuels (Worst Offenders)

~~XOM~~

~~CVX~~

~~SHEL~~

Exxon, Chevron and Shell leave the portfolio

2.3%

of the portfolio screened out

No Tobacco

~~PM~~

Philip Morris leaves the portfolio

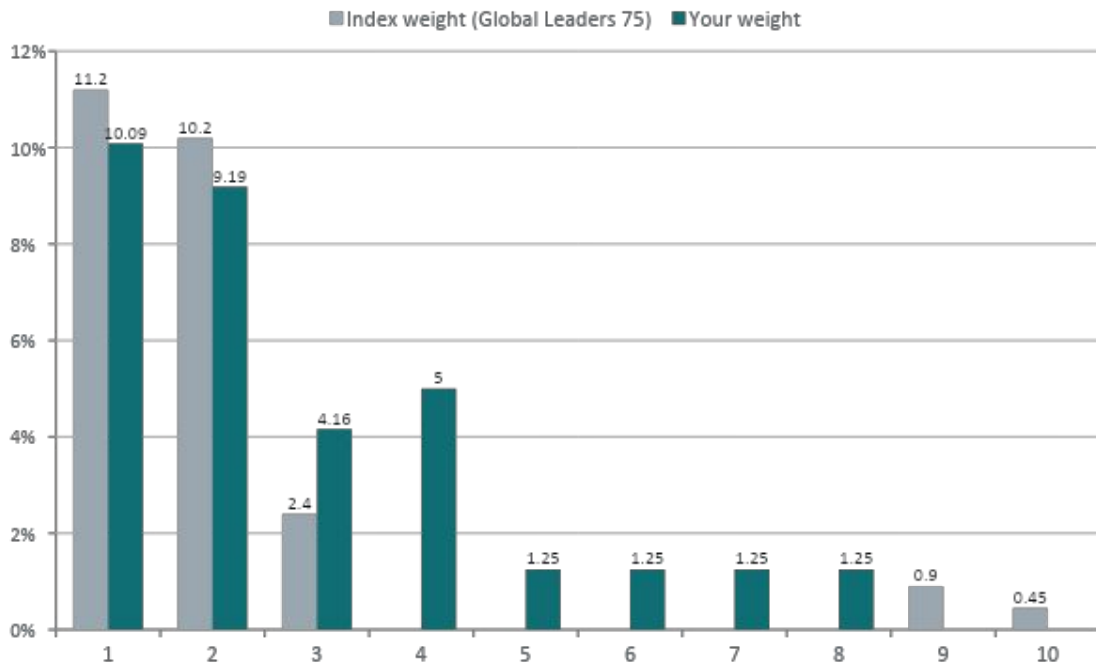
The removed money is spread across the 71 companies that remain, in proportion to their weights.

Nucleus offers 73 screens across climate, war, human rights, health, vices, animal rights, religion, social and geographic categories.

Screen names and affected companies from the Nucleus portfolio preview. Shell assumed for the screen's third removal; weights approximate.

Unbundling the ETF · General information only · Figures illustrative unless stated

Tilts add new holdings, or add more of ones you already own



+5%

Gold Physical

Adds a physical gold ETF you didn't hold

+5%

Cybersecurity

Adds CrowdStrike, Palo Alto, Fortinet, Zscaler

+2%

Hold more TSMC

Adds to a company already in the base

75 → 76 holdings

11.8% active share vs the index

Tilts sit alongside the base, which shrinks pro rata to make room. Cybersecurity basket and TSMC overweight are illustrative.

Unbundling the ETF · General information only · Figures illustrative unless stated

Choosing which parcel to sell

Inside an ETF the fund decides. When you own the shares, you do.

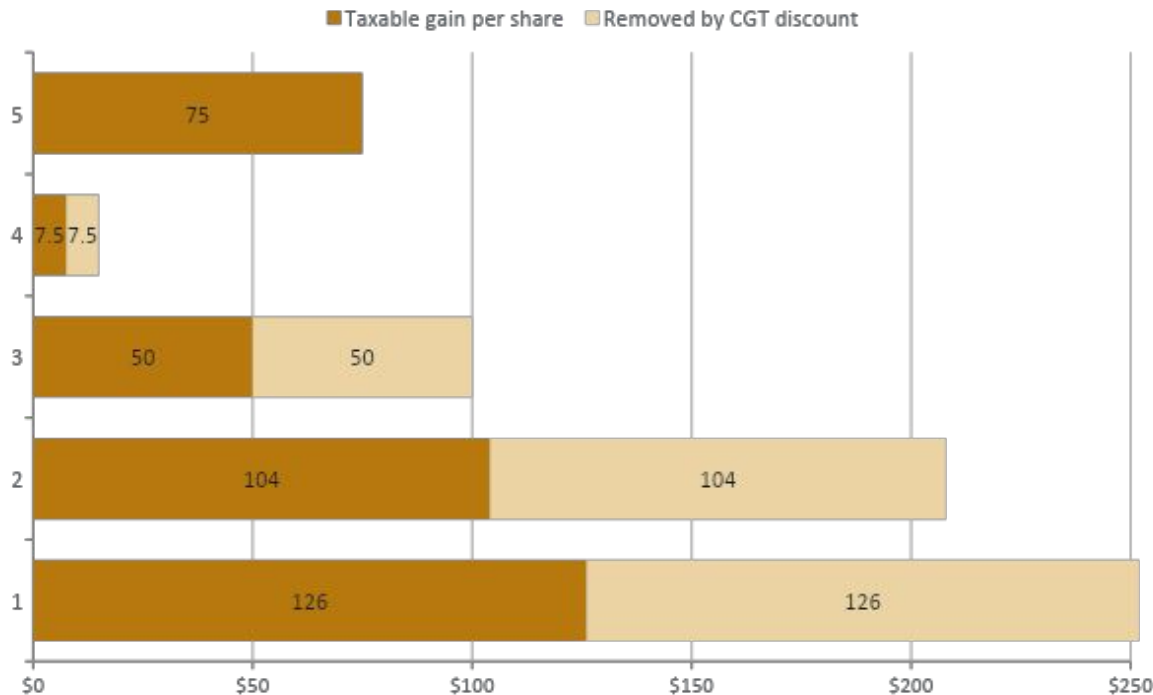
Every purchase creates a parcel with its own cost and date

Parcel	Bought	Shares	Cost	Held	Gain / share	CGT discount	Taxable / share
P1	Mar 2021	100	\$28	66 months	\$252	Yes, 50%	\$126
P2	Nov 2023	100	\$72	34 months	\$208	Yes, 50%	\$104
P3	Jan 2025	100	\$180	21 months	\$100	Yes, 50%	\$50
P4	Jul 2025	100	\$265	15 months	\$15	Yes, 50%	\$7.50
P5	Mar 2026	100	\$205	7 months	\$75	No	\$75

Watch P4 and P5. P5 is newer and cheaper, so its gain is bigger and none of it is discounted. P4 cost more 15 months ago and only half its small gain is taxed.

Illustrative NVIDIA parcels in AUD, split-adjusted. Price today \$280. Sale date 8 Oct 2026. Individual at 47%.

The 12-month discount changes which parcel is cheapest to sell



\$7.50

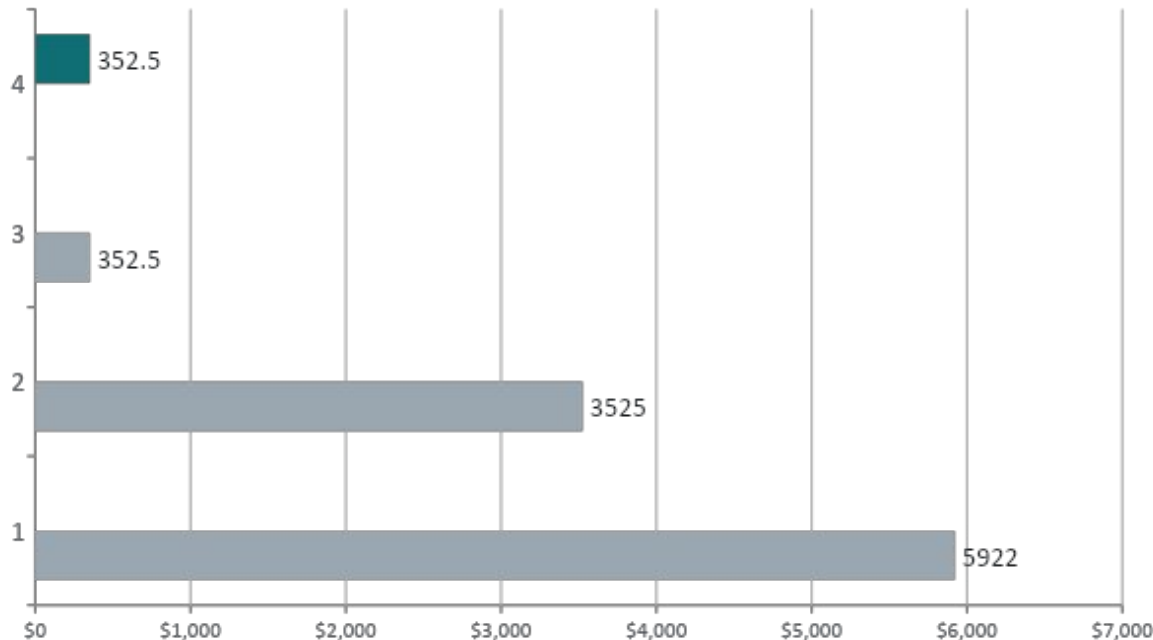
taxable per share on P4, held 15 months

\$75

taxable per share on P5, held 7 months, even though it cost less

Selling 100 shares: newest-first costs 10× the tax of the optimised choice

Tax on selling 100 shares, individual at 47%



\$3,173

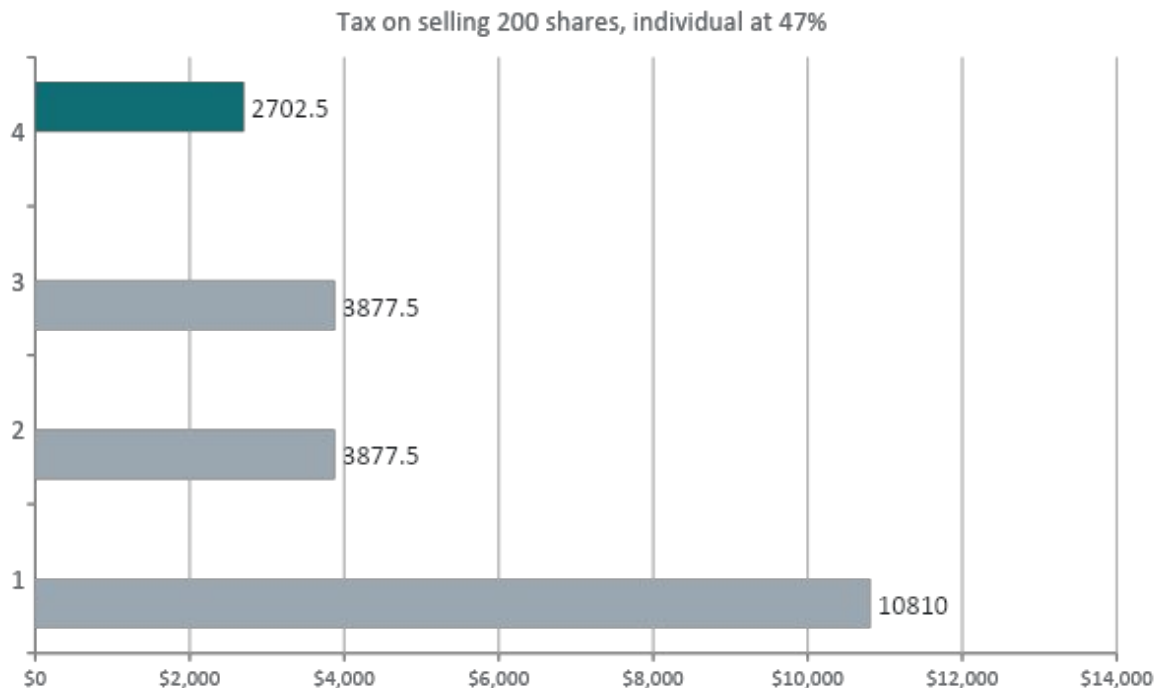
saved against newest-first on one sale

\$5,570

saved against oldest-first

Newest-first sells P5. The optimiser sells P4: higher cost, held 15 months, half the gain taxed.

Selling 200 shares: "highest cost first" isn't always the best rule



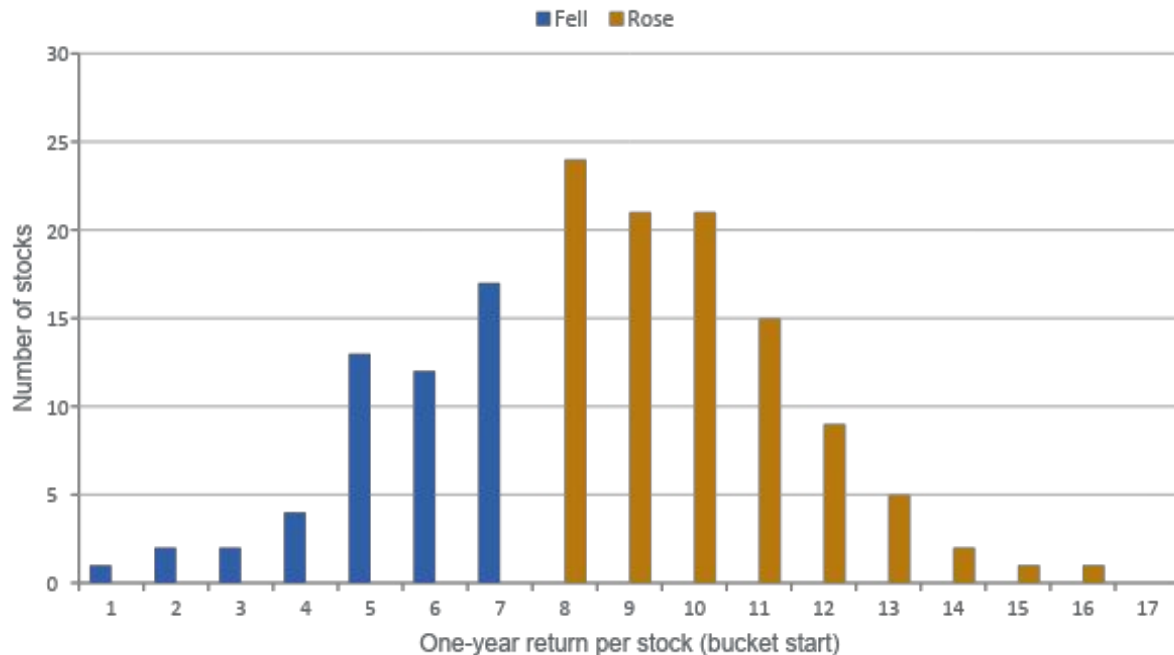
\$1,175

less tax than highest-cost-first

After P4, highest-cost-first sells **P5 at \$205**, held 7 months: \$75 taxable per share.

The optimiser sells **P3 at \$180**, held 21 months: only \$50 of its \$100 gain is taxed.

Even when the index rises, about a third of its stocks fall



51 of 150

stocks fell in a year the portfolio rose 10%

Losses you can harvest

Gains where you choose the parcel

An ETF holder sees one number. You see 150 separate decisions.

Simulated one-year returns for 150 stocks (Global Leaders 75 plus Australian Leaders 75), 10% average. Illustrative, not market data.

Fees step down as the portfolio grows

Portfolio band	Non-super	Super
First \$500k	0.33%	0.55%
\$500k to \$2m	0.165%	0.20%
Over \$2m	0.11%	0.145%

Tiered: each rate applies to the part of the balance in that band. Trading from 0.099% of value traded. No ongoing fees on foreign currency or select ETFs.

Fees from directindexing.au.

Trade-offs to be straight about

- More line items on your statement
- Trading costs when you rebalance
- The more you screen and tilt, the further you drift from the index

Who it suits

- Investors with values they want reflected
- People with concentrated holdings elsewhere
- Anyone paying meaningful capital gains tax

ETFs packaged the market for everyone. Direct indexing gives you the parts back.

directindexing.au

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