Canberra times: q&a

Q 1: Reading your column for the last few years you always seem to have a very positive view of the Australian sharemarket over the long term. However, we are still seeing poor performances as we have just had this last financial year. Do you still have that positive view?
L.O., Chifley

A 1: In short I absolutely do maintain my view that the Australian sharemarket and other economies embracing the capitalist system, will continue to achieve average sharemarket returns over the long term of some 10% to 12% pa. The reason is due to the way money moves in the capitalist system. First, here are some facts about the Australian sharemarket's recent performance:

1) The closing high point for the market was 6,854 points on 1 November 2007
2) The low point of the fall to date was 3,112 points on 6 March 2009, reflecting a 3,742 point fall or 54.6% over 16 months
3) Upon closing on 30 June 2009 the market was 3,947 points, representing a 835 point increase since the low point, or a 26.8% increase
4) For the financial year from 30 June 2008 to 30 June 2009 there was a 1,386 point drop or 26.0% fall from 5,333 points to 3,947 points
5) If you invested into the Australian sharemarket on 30 June 2009, and the market eventually reached the high point on 1 November 2007, then the investor would achieve a return of 73.7%

Now, here are some comments about why the Australian sharemarket will increase over the long term (short term is unpredictable, but long term is predictable so long as the capitalist system continues to operate in this country):

1) Companies exist to make a profit, and if they do not, they will eventually collapse.
2) If a company is not on track to make a profit, then they need to make the hard decisions to restore profits, such as cutting costs, staff or closing production plants.
3) So long as companies are still operating and making profits, then all the bills are getting paid such as loans to banks, salaries to staff, operating costs are covered and investors are happy.
4) If you think profits for companies will EVER get back to where they were 18 months ago (as profits at that time supported the sensible valuation for the sharemarket) then the sharemarket will return to that level at some stage.
5) When considering whether profits will ever increase, consider we are still having babies, we still shop (food, clothes, goods), technology is constantly improving, and the 2 largest populated countries in China and India have 50 years of "Westernising" to go to catch up to other countries like US, UK and Australia.
6) Absolutely a short term slowdown in economic activity will reduce profits and sensibly should reduce sharemarket values, but if activity EVER increases again, then profits will increase and share values will increase aswell.
7) If you do lose your job due to an economic downturn, then it is unlikely you will sit at home and do nothing, rather you will look for another job, retrain, and have your productive ability reallocated to another business, location or industry, and you will still need a place to live and you will still consume.
8) I for one have no concerns that we will continue to consume, profits will be restored, and share prices will rise - in the long term.

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