October 2012

Looking to the future

Snapshot

'Procrastination is the thief of time' is a phrase that has been hijacked by the finance industry and reappeared as procrastination being 'the thief of wealth'. If you are waiting for the right time to buy back into the market, then you may well be losing an opportunity to build your wealth.

'Procrastination' is a grand word but it has simple Latin origins, pro meaning 'for' and cras meaning 'tomorrow'…for tomorrow. And that is what sharemarkets are all about. They don't look to yesterday but focus on tomorrow.

Tomorrow in the market

Stock prices and sharemarkets are often forward-looking; a concept which is tricky to grasp. A company's shares tend to rally on the expectation of a good result, rather than wait for the announcement of that good result. If the announcement does not meet expectations, the share price can drop.

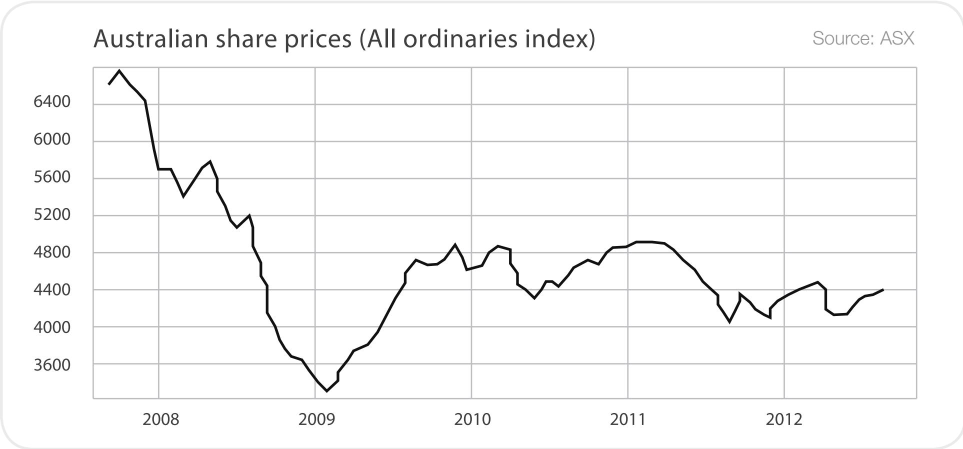
And it's much the same for the market overall. It is said the sharemarket generally runs six months ahead of the actual economy. With some commentators believing we will start to see a global economic recovery in 2013, these factors might well be underpinning recent rises in the major sharemarkets around the world, even though our local market has lagged behind the US.

Recent market performance

Since January, global shares have risen around 11 per cent, led by the US. The Australian All Ordinaries index has risen more than 5 per cent to around 4,400 although back in May it topped 4,500, underlining the continued volatility in the market. Either way, it's nowhere near its November 2007 peak of 6,873 but still well off the bottom of 3,111 in March 2009.

These ups and downs reflect continuing uncertainty and the shakiness of investor confidence in the market. Indeed, a recent survey by the Melbourne Institute and Westpac showed only 5.5 per cent of Australians nominated shares as the wisest place for their savings.

Snapshot



The next move

Market sentiment does appear to be cautiously changing, reflected in recent media stories pointing to a more sustained market upswing. There are signs of support at key levels, suggesting an unwillingness to push prices lower. This, in turn, has reduced volatility in the market.

The International Monetary Fund has projected global growth for 2013 of around 3.75 per cent, despite Europe's issues, a sluggish US and a slowdown in China.

In addition, as interest rates trend down in Australia, some of the money previously invested in shares, but now in bank deposits and fixed interest, should start to flow back into the sharemarket, lifting prices as it does.

Of course, positive commentary and optimism don't fix major problems in Europe nor do they mean a bull run is just around the corner, but it would be fair to say most negative factors have already been priced into the market.

The latest move by the US Federal Reserve to buy $US40 billion a month in mortgage-backed securities has proved a welcome short-term boost as has the German constitutional court's approval of the big rescue fund for troubled euro zone members.

But global markets are still wary of the slowing pace of China's growth, while closer to home the high Australian dollar and falling iron ore prices cast a shadow.

Shares pay dividends

Some market pundits believe Australian shares are currently cheap, which in turn means the dividend yield is higher. Add to that the benefits of franking credits on Australian share dividends and the fact 63 per cent of companies increased their dividends in the latest reporting season, and the argument for re-entering the market gathers momentum.

Share investments often represent only one part of your asset allocation, as determined by your risk profile, needs and goals. Once you have set your share investment strategy, generally speaking, you should stick with it and look to the long term.

Indeed, if you had not needed to sell your shares to provide an income in the wake of the GFC, then the losses would have only been paper losses. In time, most shares will recover lost ground and while you may have seen no capital growth over the last few years, dividends have continued to be paid.

Warren Buffett is famous for saying you should be fearful when others are greedy and greedy when others are fearful.

With the wisdom of this famous investor in mind, maybe it's time to stop procrastinating and start looking to tomorrow — today.

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