rise financial

Take Control - With Your Independent Financial Adviser

Seeking economic oracles

Snapshot

Whether it's betting on copper prices and pork belly futures, hanging onto every word the International Monetary Fund (IMF) utters, or reading tea leaves, many investors have a preferred "crystal ball" for tipping what the economy will do next.

Unsurprisingly, there is no silver bullet for predicting future prosperity. Yet in uncertain economic times, investors often seek out indicators they hope will give them insight to protect their assets in case things go pear-shaped.

Traditionally, watching the ebb and flow of copper prices was used as a bellwether for economies. When prices climbed it signalled the metal was being stockpiled ahead of a construction boom. Lower prices meant subdued demand and sluggish times ahead. Such was the base metal's powers to forecast economic activity that it was dubbed "Dr Copper".

However, the lustre of the metal's prowess has faded in recent times, partly because alternatives to copper are being used in building and telecommunication projects.

Gold has also been an economic oracle for centuries. In times of volatility, investors would plough their funds into the safe-haven pushing up its price. Subdued gold prices indicated wealth was working elsewhere in markets, and thus robust economic activity was afoot.

Markets mind business

Ordinarily, bullion would have been snapped up when the US faced the threat of bankruptcy in October. But the gold rush did not happen, despite the bickering in Washington over legislation to fund government operations and increase the debt-ceiling so Federal accounts can be paid.

In another surprise, the US impasse did not have the "catastrophic" effect on stock exchanges seen during other similar crises. In fact, New York's Dow Jones Industrial Average index has shown remarkable resilience given the financial jitters on Capitol Hill.

The Australian stock market has also demonstrated it can stay steady through these times. This further disproves the old adage that when the "US sneezes, Australia catches a cold". In the 80s and 90s, economists would forecast Australian conditions based on what was happening in the US.

Snapshot

Nowadays, they focus more on domestic trends such as the recent marginal increase in housing approvals which signal housing construction is emerging from the doldrums thanks to historically low interest rates.

Likewise, the Australian Labor Force statistics, which showed a drop in the unemployment rate in September to 5.6 per cent, are taken as a better indicator of the strength of local businesses than whether American bosses are hiring or firing.

Global vs Domestic view

However, the IMF's longer-term view for Australia is not as bullish as it was just a few months ago. In its recent World Economic Outlook, the IMF has cut back GDP growth estimates in 2014 from its April forecast of 3.3 per cent to 2.8 per cent.

The assessment surprised some who thought Australia's businesses could look forward to greater stability and productivity now that the federal election is behind us.

There are mixed global and domestic signals out there and the investment landscape can shift in a moment. Never before have so many indicators rested as flimsily on economic tectonic plates as they do today. All the more reason to have a long-term strategic view of your wealth creation plan, rather than a reactive approach to fast-changing economic indicators.

Even the authoritative IMF hedges its bets, admitting in its Outlook there was a chance it may be too optimistic in its forecast for "low-gear" global growth over the short term.

It was a concession to the dynamics of an intertwined global economy with many variables, from Japan's Abenomics' structural reforms and troubled US monetary policy, to the huge national debts in the Eurozone and the unexpected sluggishness in emerging Asian economies thanks to the slowdown in China's growth.

Data mining

On the other hand, The Reserve Bank of Australia (RBA) in October gave a positive view of global conditions, while admitting economic growth at home had been below trend this year and would likely stay this way for another year.

The RBA uses data about the way people and organisations spend or save to assess if it needs to move interest rates to tweak economic growth and prevent high inflation. The decision to leave rates on hold in October relied partly on the Australian Bureau of Statistics' subdued national accounts, capital expenditure and consumer spending figures.

Financial markets often take their cue from active futures and derivatives traders. These intrepid investors make a living second guessing what share prices or commodity markets will do. To make derivatives trading less like divining, a new Australian Securities Exchange index has just been launched to measure real-time investor sentiment to help futures traders forecast likely volatility.

Volatility can create fortune as much as misfortune. The best way of safeguarding your portfolio against future shocks is to spread the risk and have a long-term view. If you would like to discuss your investment strategy in the context of this article, please don't hesitate to call us.

rise financial

Phillip Thompson of Rise Financial
25 Michell Street
Monash, ACT 2904

P 02 6292 0015
F 02 6292 0071
E phil@risefinancial.com.au
W www.risefinancial.com.au