



SW: Given the rally that has just occurred, one might suggest that Australian Shares are no longer 'cheap'. What are your thoughts on this?

GM: With interest rates at record lows, cash has provided diminishing returns for some time now. The property market still faces significant challenges as deleveraging in that sector continues. Although shares are not as cheap as they were in March this year, riskier assets like shares are more attractive than cash and offer excellent risk adjusted returns over a long term period. The negatives are recent capital raisings that will dilute earnings per share, lower company operating earnings, and rising unemployment that will restrict growth.

SW: People including myself have called a 'Bear Rally' back in March/April this year. Although we saw a market pull back in early July, the market seems to have recovered well since then and continued its upward trend. Apart from the above trend analysis what else would indicate a change of direction from Bear Market to Bull Market?

GM: The below table represents all bear markets since 1900 on the Australian Share Market. The current bear market is worse than average; its 55% top to bottom fall is second only to the 1973-74 bear market when shares fell 59%. I think if we draw on the experiences of history, then the recent capitulation in the share market is as bad as it gets and really was driven by extreme fear and selling pressure on the back of global deleveraging where capital and credit was scarce.

Share bear markets (Australian shares)	Months to low	% fall	Months after low to make new high	% gain in first 12 months after low
Jun 14 – Dec 16	30	-22	37	+10
Jul 29 – Aug 31	25	-46	38	+33
Mar 37 – Apr 42	61	-32	43	+30
May 51 – Dec 52	19	-34	62	+8
Sep 60 – Nov 60	2	-23	33	+12
Feb 64 – Jun 65	16	-20	25	+9
Jan 70 – Nov 71	22	-39	94	+52
Jan 73 – Sep 74	20	-59	59	+51
Nov 80 – Jul 82	32	-41	17	+39
Aug 87 – Nov 87	2	-50	75	+35
Aug 89 – Jan 91	15	-32	30	+39
Feb 94 – Feb 95	12	-22	20	+25
Mar 02 – Mar 03	12	-22	15	+27
Average from 1900	21	-34	42	+28
Average from 1950	15	-34	43	+30
Nov 07 – Mar 08	16	-55	?	?

SW: So would you suggest we have seen the bottom?

GM: I am comfortable to call the March low the bottom of the bear market, so unless we have another global shock we will not re-test the 3000 level again. There are encouraging signs that global credit and capital are flowing though at a reduced rate and many companies have recapitalised. Also the amount of money sitting in cash isn't offering real returns above inflation so cash is no longer attractive on a risk adjusted basis. Eventually some of that cash must flow back into share markets that offer attractive dividend yields greater than cash and the potential for capital gains. As always with shares it is a bumpy ride but its prospects over the medium to long term look appealing versus other asset classes.