



## Paul Clitheroe

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

# investing with a glass half full

**Paul shares his thoughts on the economic crisis, the gloomy headlines still to come, and some wonderful opportunities emerging for patient investors.**

It's hard to find much good economic news at the moment, but it all depends on what you are looking for. If you want news that the economy is going to recover tomorrow and everything will be okay, then you had better start up your own newspaper. Clearly we are still in for some rough times ahead on the economic front. Every one of us is a lot poorer on paper, and a whole lot of us will lose our jobs or have to live on a reduced income. But if you want signs of real value and some great investment opportunities emerging, well, there are plenty of those in the current market.

I know it doesn't feel like it at the moment. But that's about the only predictable thing about the swings and roundabouts in markets and the economy – we're 'boom lemmings' and 'bust lemmings'. In a boom all news is good news and we think the sun will keep shining forever, while in a bust we simply can't find a positive story and can't see a way out. A recent scan of the business section in the local broadsheet produced 46 negative headlines and one good news story.

Things might be gloomy, but they're not that bad. History shows us clearly that every boom comes to an end, generally for reasons we never can predict, and every bust becomes the platform for the next recovery.

This bust will end like all others before it – unless of course you think capitalism is dead and we're all going to live in caves. Personally, I can't see it happening.

### **better times ahead**

Here's a story you won't read in tomorrow's paper. Professor Jeremy Siegelman of Wharton

University points out that we have 137 years of good quality data on the performance of shares (going back to 1871). In a 20-year period, shares have averaged 6.85% per annum in excess of inflation. Investment returns are now negative for the last 10 years.

Considering the 50% plus downturn in share prices, falling interest rates and vast cash injections, it is not unreasonable to argue that shares are reasonable value, and in the context of future recovery, cheap. If over the 20 year period from 1998 – 2018, shares once again average 6.85% per annum in excess of inflation, returns over the next 10 years based on history, should be strong.

Look, I know people are comparing the current economic times to the Great Depression of the early 1930s, which really was very ugly. But the events of today are different, mainly in the way governments are responding.

In the two depressions of the 1800s and the Great Depression of 1929 – 1932, governments took limited action leading to systemic bank failure and depression. It's important to understand, though, that falling markets did not cause these depressions. The downturn was greatly exacerbated by bank failure and a collapse of credit.

Governments are following a script very close to the book of History of the US Economy, written by Milton Friedman in the early 1960s. He argues that governments should have protected banks and stimulated the economy. That's what they are doing in a big way now. Of course, every time is different and this hasn't been tried before so it's unlikely things will work out perfectly.

We'll no doubt be hit by more surprises, quite possibly business or even bank failures and the exposure of currently hidden losses, like derivatives. Don't worry – we actually need this to happen, the system has to be cleansed for recovery. These things will test our emotions but we need to apply a bit of logic as well.

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### getting ready for recovery

This period is when people get positioned to create real wealth because, for the first time in a decade, assets are historically cheap. So if you have a secure job and low levels of debt, or the financial ability to sit tight without drawing down too heavily on your assets, the next year or two will bring some interesting opportunities.

The Aussie share market finished 2008 down around 45%, the worst single calendar year in history. For those who have to sell, property is a disaster, while even if you are selling at leisure, most parts of the property market are down 10% to 15%. But this does not mean that quality property and quality shares are poor investments or will fall forever.

The bottom line is that for many people, 2009-10 will be a real debt reduction and wealth creation opportunity. A large number of people are already

a lot better off. Mortgage interest rates have declined dramatically, as have petrol prices. Markets have already taken a flogging and priced in lots of bad news. Markets collapsed when we least expected it. As history shows us, they are likely to jump dramatically when we least expect it.

If you have cash flow, job security and patience, my advice is simple. Buy good quality, investments while you can. Can they get cheaper? Yes they can, but that's not really the point. Look at history. None of us has a crystal ball, so markets will bottom when they bottom. All I can do is encourage us to look at history and recognise that the world population is still growing, that demand for houses, goods and services will continue and that a 'glass half full' attitude will help us to protect our wealth, and for younger Australians and those still at work to grow wealth.



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