"Those people who feel that money is the most important thing in life, when economic crisis hits, learn that it is only one way to be happy. There is also family, friends and peace of mind. Therefore, this crisis is good, because it reminds people who only want to see money grow and grow that there are limitations."

Dalai Lama, University of California, Santa Barbara, April 25, 2009

Twelve months ago we observed that, "the market has recovered by an average of 46% (and at least 21%) in the first year after every bear market since 1932". At that point we had not seen the trough of that particular bear market – it was a couple of months away in March 2009 – but in the intervening year we have seen the Australian share market rise by 33.4% (and by 57.9% from its 6 March low). So in one sense I guess we could describe the course of the market in 2009 as "average". But of course it is anything but average. In aggregate and over time the market should grow in line with Gross Domestic Product (GDP) plus inflation – generally between 5% to 10% a year. The market growth that we have seen over the past year is unsustainable over the long term, just as the decline we saw over the previous year and a half was equally beyond logic.

Just as it is important to hold your nerve when markets are falling and not be an anxious (or even worse, a forced) seller, it is also important to exercise patience when markets are booming. By having some cash available you are able to take advantage of opportunities to buy high quality businesses at attractive prices when the market falters, as it almost inevitably does.

December 2009