

"Most investors want to do today what they should have done yesterday."

*Anthony Bolton, *Investing Against the Tide: Lessons from a Life Running Money**

The financial turmoil of recent years sapped people's appetite for risk. Whereas in 2007 many investors aimed to turbo-charge their portfolio's returns by adding generous servings of debt, today they are more concerned about preserving their capital. The level of outstanding margin loans (where people buy securities with borrowed money) in Australia has fallen from almost \$42 billion in 2007 to less than \$16 billion this year. Over the same period the level of cash and term deposits has grown from \$400 billion to over \$700 billion.

This year we have seen investors begin to slowly crawl back up the risk curve. As interest rates have declined they have sought yield elsewhere and started to invest in companies with very reliable earnings and generous dividends (such as Telstra and Woolworths as well as the health care and infrastructure stocks). This has pushed up the prices of these securities and made them less attractive investments.

I expect that as those who have hunkered down in terms deposits take stock over summer, and realise that they may have foregone sizeable returns in the Australian share market, they will become less satisfied with their paltry and shrinking returns. Greed will gradually overcome fear and I would not be surprised if, over the coming year or so, the market begins to hold equities in higher regard than bonds and term deposits. As we saw through 2008, when the weight of money changes direction it can have a dramatic effect on prices. This effect can be just as sharp when the weight of money flows the other way.

So, whilst on fundamental valuations there is less compelling value to be found in the market than there has been at times over the past couple of years, I expect clients to continue to be well rewarded for sensible investment decisions made during that time.

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