LightHouse
INVESTMENT SERVICES

"The weakness of the market, when it comes to great issues, is the possession of a memory somewhat longer than a dog's, slightly shorter than a cat's."

John Ralston Saul

"Twenty five years without a recession, a cycle extended by a Chinese mining boom and a housing boom, and a build up of domestic indebtedness cannot last forever. There is a lot of excess in this economy. As I look around the world, every seven or eight years whoever has got the most excess has the biggest recession. I think it is pretty clear it has just got to happen. It's just a question of when rather than whether or not it happens."

Chris Waitling (on the Australian economy), 12 May 2015

I have spoken often over the past year of how the local equity market appears to be very fully valued. Recently I have noticed that it is almost impossible to open the business pages of any Australian newspaper without coming across some article exhorting self funded retirees to invest globally. Indeed, as a whole, Australian retail investors are probably foolishly underweight global securities. However, while the advice to broaden their investment horizon may have been sound when their Australian dollar was buying more than one US dollar, it is clearly much less so when it is buying just seventy six US cents. Now does not seem to be the perfect time to be crowding into global securities. Whilst the Australian market has performed well over the past few years – rising 50% since June 2012 – remember that global markets have also surged over that time (the MSCI World Index has risen by 87% in Australian dollar terms over those same three years). Blue chip global businesses, which were trading at single digit multiples of their after-tax earnings but are now changing hands at more than twenty times those earnings, look considerably less attractive than they did three years ago.

So if neither global nor local securities are good value, where should we be investing? I believe there is a time for building wealth and a time for preserving wealth. I think that investors should currently be focused on preserving their wealth rather than reaching for returns that may turn out to be illusory. A useful exercise for us as investors now might be to try to recall how we felt during the GFC when our retirement savings appeared to be under very real threat. With this memory fresh in our minds, it might then be worth asking ourselves what additional harm would be inflicted on our portfolios if we continue to allow our cash reserves to build (ideally with a target to at **least** 20% of the portfolio's value) to be available if the market throws up more attractive opportunities.

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