

*"Every half-baked expert in the world is telling you that you have got to be in cash or in fixed interest. Equities is a much less-loved asset class than it was five years ago, so I think the stockmarket actually is not a bad place to be."*<sup>1</sup>

John Sevier, 27 September 2012

Inverting John Sevier's observation of two and a half years ago it would be reasonable to assume that the stockmarket is currently **not** the best place to be. Whilst conventional wisdom is that share prices are being pushed to artificially inflated levels as investors seek yield, it is also conventional wisdom that investors have no choice but to continue in the lemming-like stampede into any security offering a more attractive yield than bank term deposits.

What will happen to these asset prices when there are signs that interest rates might return to a more normal setting? And it is a matter of "when", not "if". It might not be this month or even this year, but it will happen and when it does the price of all assets will fall, but particularly that of assets that have been bought to deliver an income yield. Will the additional couple of percent yield-chasers are now receiving compensate them for the capital loss they may suffer in the event of even a moderate market dislocation? Right now everyone seems focused on the reward side of the risk-reward equation, paying little heed to the risk side.

The only way to justify these valuations is by making relative comparisons. Commonwealth Bank may be paying a relatively slim 4.5% dividend, but that can still seem better than the 2.6% that bank is offering on a twelve month term deposit. It's a bit like the old joke about the pastor conducting a funeral service. He calls on anyone in the congregation to say something nice about the deceased, only to be met with silence. After a number of requests, an old man at the back of the church pipes up, "Well, he wasn't as bad as his brother." I don't want to be buying any securities just because they aren't as bad as their siblings.

March 2015

---

<sup>1</sup> Hindsight tells us the Australian equities market has risen 47% since then, so that turns out to be not too bad a call.