



BARNETT LILLEY &  
ASSOCIATES Pty Ltd

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In the 1993 movie *Groundhog Day*, Bill Murray wakes every morning to “I got you babe” on the radio. This is his first signal that he is reliving the same day, over and over. It feels as though this parallel universe may have descended on us, as the first comment I hear on the radio each morning is “shares slumped overnight on the back of European debt concerns”. There is no doubt that there is volatility in share markets at present with the European political environment changing every day.

It is, however, important to put this into perspective. It has been several months now since the European debt issues re-emerged. There is no doubt that every day sees a different twist to the story, however the general economic problems of Europe did not just emerge this week.



The above graph shows the movement of the Australian All Ordinaries index over the past three months. Over this period the Europe story has moved in a number of directions. Some days there has been great optimism and other days pessimism. However, in spite of all this, our market is essentially where it was three months ago.

There is no doubt that the news of the European disorder is disturbing. However, the markets have been pricing in this disharmony for several months now. Over this last three months we have seen unprecedented change in political leadership, with the European Central Bank and International Monetary Fund also making decisions “on the run”. It is really anyone’s guess as to where this soap opera will be next week.

It is not surprising that over periods such as this, we do get calls from some clients who are thinking of changing their investment strategy. The common theme that is suggested to us is to move all assets into cash until this is “sorted out” and then move back into the market. It is worthwhile repeating our thoughts on this approach. The difficulty that we will have is in deciding when it is “sorted out” and be comfortable in moving back into the markets. We saw this very clearly in the post GFC period in 2009.

In the darkest days of the GFC (in March 2009 where the ASX fell to 3111), some individuals did retreat back to cash, to sit in safer waters until this was “sorted out”. In the next 13 months, while they sat in cash, the share market rebounded by some 60% to get back above 5000 points. At this time, many were convinced that the GFC issues had been “sorted out” and went back into the market. History shows that the Greek debt issue subsequently spooked the market, with it falling by 18% in two months. Coincidentally, the market level today is approximately the same as it was in July 2009, when the first wave of fear over European debt emerged. A lot of water has gone under the bridge since then, but the market is pretty much the same.

There can be no worse fate in investing than being in the markets during declines and out of them during periods of growth. Clearly switching investment strategies based on “what might happen” is a dangerous act.

Our December newsletter will give a comprehensive analysis of where things are at the moment. However, given the amount of airplay that the European issues are getting, we thought appropriate to send out this bulletin. Obviously we will adhere to any requests that you wish to make within your portfolio, however, as you can gather, we are not recommending clients change their strategies at this point in time.

The BL&A team.