<u>OUTLOOK FOR FINANCIAL MARKETS as at 6/9/2021</u>

What is going to happen to share prices over the next few months?

I don't know (*which is what I say <u>whenever</u> anyone asks me)*. In my opinion:

- Some shares are cheap
- Some shares are fair value'
- Some shares are slightly expensive
- Some shares are very expensive

In the near future sharemarkets (*the sum of all shares*) might fall or they might continue rising or they might not move much at all. Over the longer term share prices (*on average*) will invariably rise – if they fall, they will eventually recover, just as they have done in the past.

So, what are your alternatives

1. You could predict that sharemarkets will continue to rise and buy more shares; or

2. You could predict that sharemarkets will fall and sell all your shares, wait for the fall and then try and time the right time to buy back in; or

3. Stick to your plan and maintain a diversified mix of investments (*including shares*).

I vote for option 3. If share prices continue rising, you benefit from the exposure you have. If they fall, you sit tight and wait for them to recover because you have other investments that are less impacted. If you need to cash some investments in to pay for extra expenditure, say for example a new car, then you can cash in the required amount from some of the non-share based investments without the need to sell anything at an inopportune time, i.e. when the prices are down.

Option 1 doesn't work for me because you end up with too many eggs in the one basket and if share prices do fall, because of your lack of diversification, if you need extra cash you may be forced to cash in some investments when prices are low, thereby actually realising a loss.

Option 2 doesn't work for me either because if share prices continue rising, you miss out, and if they do fall, when do you buy back in? History would show that most people that adopt this approach:

- Don't have the courage to buy back in when things are at their grimmest (*which is when prices are invariably at their lowest*).
- They wait for signs of recovery (*which can often happen quite quickly*) and miss the boat. Then they come to the realisation that they may have missed the recovery and they end up waiting for another downturn which may not happen for a year or three, and they miss further upside.

The bottom line is no one can predict when prices may rise or fall. There are those who from time to time claim to have predicted the outcome, but they get more predictions wrong than they get right. If you continually predict falls you will eventually be right occasionally.

I often say to people, if you haven't sold anything then you haven't lost anything. If prices fall temporarily and you don't sell then you haven't lost anything and the only things that are important are what you bought something for, what you eventually sell it for, and how much in the way of dividends (*rent in the case of property*) you received while you are the owner. If you have 1,000 shares in a business and prices fall, you still own the same share of the business if you don't sell, and when prices recover you will still own the 1,000 shares in that business.

For example, let's look at BHP and Commonwealth Bank shares:

	Price BHP	Price CBA
20 years ago	$ 6.97	$ 25.96
As at 1/10/2007	$ 40.05	$ 61.17
Global Financial Crisis low point (early 2009)	$ 25.04	$ 29.64
Recovery 2010	$ 39.41	$ 58.19
Low point of late 2018 sell-off	$ 29.43	$ 65.81
February 2020 (pre COVID sell-off)	$ 40.45	$ 90.99
March 2020 (low point COVID sell-off)	$ 26.72	$ 57.66
Now	$ 42.35	$ 101.12
TOTAL FULLY FRANKED DIVIDENDS PAID OVER THE LAST 10 YEARS	$ 17.00	$ 38.80

My outlook for other non sharemarket investments is:

- Property, both Australian and overseas, some decent value can be found in parts of the property markets. Australian residential property looks expensive as do a few Australian listed property trusts.

- Fixed interest rates are very low. Some above average gains are possible with actively managed fixed interest securities and derivatives, as well as some private debt exposure.

- There are opportunities for good returns within the Private Equity and Direct Infrastructure sectors.

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