

## Media Release

### The Only Certainty is that Markets will Eventually Recover

**Monday December 8, 2008.** With global share markets having fallen so dramatically, investors are naturally asking whether things will get worse, or has the bottom been reached.

“While this is impossible to answer, there are some strong lessons from the past that should help to reassure investors and provide some direction for their investment strategy,” said Zenith Investment Partners Pty Ltd (Zenith) Associate Director Glen Franklin.

“The Australian share market has experienced six bear markets since the 31<sup>st</sup> of December 1969, including the current market downturn.”

“Whilst there is no universal definition of what constitutes a bear market, one generally accepted measure (and the one we have used for this Zenith communiqué) is a decline of 20% or more over at least a two-month period.”

The current Australian shares bear market started in November 2007 and in the 13 months to 30 November 2008 the market has declined by -42% (as measured by the S&P/ASX 200 Accumulation Index).

Glen Franklin continued, “While it is still uncertain when we will see a reversal of the current market slump, this decline is already the 3<sup>rd</sup> worst in the period since the beginning of the 1970s.”

To help put the current bear market in perspective, Zenith has undertaken an analysis of the five most recently completed bear markets and uncovered some interesting facts and these are as follows:

- The average decline of each bear market was -37%;
- The worst bear market in this period was between January 1973 and September 1974, where the market fell by -55%;
- Each bear market lasted 16 months on average;
- Once a bear market ended, on average it took 33 months to exceed the previous market high (i.e. the recovery period was generally twice as long as the preceding market fall);
- On average, the share market return over the three years directly following the end of a bear market was 62% (or 17.4% per annum);
- On average, the share market return in the six months directly following the end of a bear market was 28%;

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“What Zenith found to be one of the most interesting statistics from its analysis was the fact that while the average three year post-bear market return was 62%, a very large proportion of this return came in the six months directly following the end of the bear market,” said Glen Franklin.

“For those investors that temporarily allocated away from shares to cash and missed the 28% share market return in the first six months of the market recovery, their average total return in the three years following a bear market would drop dramatically from 62% (or 17.4% per annum) to approximately 35% (or 10.5% per annum).”

This assumes the investor allocated to cash for the first six months of the recovery and shares for the remaining 30 months.

This provides further evidence to support Zenith’s view that attempting to time entry and exit points in the share market is a highly risky strategy that has the potential to significantly impair a portfolio’s long-term returns if the timing decisions are anything short of precise.

The potential benefits of correctly forecasting a bear market and allocating to cash can sometimes cloud the reality of just how difficult this task is to achieve.

In this respect, Zenith has encountered very few fund managers that have been able to consistently profit from market timing. Even if investors do exit the share market before the end of a bear market, there is a significant risk that they may forego a large part of the inevitable market recovery by returning to the share market too late.

Given the extremely unpredictable nature of share markets over the short to medium term, Zenith advises strongly against attempting to time entry and exit points, and instead encourages its clients to stick to a long term Strategic Asset Allocation and, where possible, regularly add to their investment.

“In Zenith’s view, it is critical that investors take a long term view of 7+ years when investing in shares and should be prepared to “hold fast” in both good times and bad.”

“For new investors that are entering the share market for the first time, an averaging in approach is a very powerful strategy, as it significantly reduces the risk of being over exposed to further market falls. An approach such as this would involve progressively building up an allocation to shares over time,” concluded Glen Franklin.

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## **Notes to the Editor**

### **About Zenith Investment Partners**

Zenith Investment Partners (Zenith) is a Melbourne based boutique investment research provider and specialises in the provision of customised investment research products and services to financial planners, fund managers and other investment product and service providers.

Established in October 2002 by founding Directors and Principals David Smythe and David Wright, Zenith's team includes Associate Directors Ben Davis and Glen Franklin, three investment analysts and one research assistant.

The four partners of Zenith have over 45 years combined investment research experience.

Zenith is 100% owned by the Directors and staff. Zenith specialises in the identification and selection of "best of breed" managed investment products.

This work culminates in the production of a comprehensive recommended list of managed investments covering all asset classes and the construction of customised model portfolios.