Retirewell eNewsletter

Exclusive Client Email Newsletter – 25 May 2015

Further market dip possible, but downside should be limited

The Australian sharemarket has fallen by 9% this month, principally as a result of the uncertainty in Europe and an economic slowdown in China. Investors may be concerned about a repeat of the mid-year corrections the Australian stockmarket experienced in 2010 and 2011.

However, given the combination of falling interest rates (with the cash rate down to 3.75% with the likelihood that it will be cut by another 0.5% this year), a falling A$ (down from US$1.08 to 97c over the last two-and-a-half months) and a lower starting sharemarket level (around 4,500 on the All Ords Index compared with 5,000 at the peak in both of the last two years), the downside should be limited.

Dr Shane Oliver, Head of Investment Strategy and Chief Economist for **AMP Capital**, has written a paper entitled *Europe, China, the US - worry list for investors getting wider again.* Also of interest is Dr Oliver's paper entitled *Q&A on Greek euro exit and implications for the world and Australia*. (See attached.)

It also would be worthwhile to read the views of Jonathan Armitage, Head of Equities at MLC Investment Management, in a paper entitled *Observations from Europe* and the views of Michael Karagianis, Investment Strategist at MLC in a paper entitled *The Eurozone crisis – end game*. (See attached.)

Given that Australian shares are now producing an average grossed-up dividend yield of more than 6% pa, the best approach may be to stick to your long-term strategy and focus on the rising income stream rather than the fluctuations in the value of your portfolio. This is because there is a risk of being out of the market and missing out on strong positive returns when it inevitably turns around.

Shares are now cheap, and while they probably will get cheaper over the next few months, those who have a long-term view can take comfort that the independent firm we use for asset allocation research, ***farrelys***, is now forecasting a very attractive 13% pa total average return from the Australian sharemarket over the next 10 years from here. Having said that, it would be prudent for new investors to dollar cost average (invest gradually rather than all at once) into the market over the next few months.

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