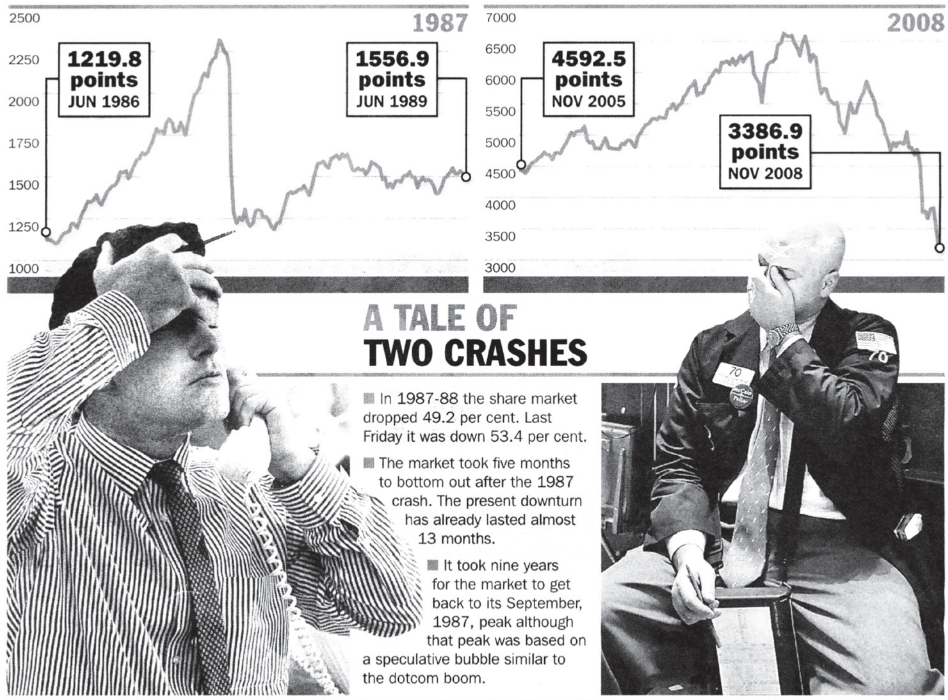

Analysts quiet on when bust will end

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AUSTRALIA'S share market slump is now the deepest since the 1970s and sliding towards its worst downturn in history.

The All Ordinaries index's low last week of 3201.5 points on Friday put it 53.4 per cent below its peak, set in November last year, and worse than the infamous 1987 crash when stocks plunged 49.2 per cent.

Embattled stockbrokers and analysts – shocked by the events of the past 12 months – have become unwilling to forecast when the market will reach its bottom or how low it will go.

Both the 1987 and 2008 crashes shook the foundations of even the strongest investment portfolios, but the similarities end there.

Grand Private Equities general manager Byron Legrand, who was running an investment fund during the 1987 crash, said this year's bear market was a "very, very different situation, which is why this one has caught so many people out". Mr Legrand said 1987 was a "speculative bubble", similar to the dotcom boom early this decade, that was always going to burst. The recent four-year boom was driven by rising company profits, particularly in the mining sector.

"The current event is far darker and the average investor did nothing to deserve this fallout," he said.

"Derivatives and dodgy bankers destroyed this boom – assassinated you may say – including the whole resource boom for now.

"The damage is extraordinary – the genuine investor has been robbed by dark cowboys."

Marinis Financial Group financial strategist Theo Marinis said the 1987 crash was driven by corporate excesses.

Leading up to the October 1987 crash the All Ordinaries of 500 major companies had doubled in the preceding 13 months, before wiping out those gains.

However, it took more than three years to double between May 2004 and the November 2007 peak, and the slide is continuing.

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"In 1987 it was much more sudden and pronounced, where this one is more death by a thousand cuts," Mr Marinis said.

But the fear and panic experienced by investors this year was nothing new, he said.

"In 1987 people were saying it's the worst since the Great Depression. Corporations were not as well-placed as they seem to be now – the corporate sector is doing reasonably well, it's cashed-up and you would expect it to rebound in due course.

"It's just a question of confidence coming back."

The biggest fall in Australia's share market was 59 per cent, set during an oil crisis and stagflation concerns in the early 1970s.

In the 1929 crash that preceded the Great Depression, the market dropped 46 per cent below its peak.

Mr Marinis said while talk of the Depression resurfaced in times like these, investors should note that in the 1920s government input to economic growth was just 3 per cent but now it is 30 per cent.

"This probably is the worst crisis since the end of the Second World War, but we have survived other crises," he said. "Sooner or later people get moving again, start spending and get on with their lives. The same will happen again. People just have to hold their nerve."

Mr Marinis said he believed the current downturn was close to its bottom, as share prices were now factoring in a depression.

Mr Legrand said he expected the bottom to come in the next three to six months, but possibly in as long as 12 months.

He predicted the recovery would be "much slower than anyone would like".

"The destruction of wealth, confidence and quantity businesses is unprecedented in our modern financial world. The recovery will be far more gradual than in the past. When you destroy something it takes far longer to rebuild," he said.

It took nine years for the All Ordinaries to reclaim its 1987 peak. Mr Legrand said it was difficult to say when the November 2007 peak would be passed. "In five years we might revisit the highs, or it might not happen for 15 years," he said.

"This event is far more serious than just a halving in the ASX – there is a huge amount of damage outside of direct equities, and some perfectly good companies have been destroyed because hedge funds can make a lot of money from ganging up and killing companies."

Mr Legrand said he expected the resources sector to lead the market out of its mire.

"This will be Asia's century. Remember that China and India will keep growing at an amazing rate even while the western world sits on the sidelines for the next two or three years."

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