Blowing in the wind

Valuing the share market may be a dark art, but analysts agree it's better to buy shares after profits have fallen, writes Anthony Keane

A RALLY on the Australian share market has left many people edgy about buying at current higher prices but there is still value for those who don't take a short-term view.

Since its March low, the share market has recovered almost 50 per cent amid growing confidence in the economic outlook.

While most market watchers say shares have run too far too fast, Russell Investments chief investment strategist Andrew Pease says investors who look beyond the next few months can still do well with shares.

''Because it fell so much, you can get a very, very powerful rebound over six to nine months before you start worrying about the long term,'' he says.

''I think the share market is still offering pretty good medium-term value.

''There's going to be volatility – don't think it's going to be a straight rise like the one we have seen in the past six months.''

Pease says two current factors – higher-than-average dividend yields and the recent 20 per cent slump in corporate profits – suggest it's not a bad time to buy shares.

''As a general rule of thumb, it's better to buy shares after profits have fallen,'' he says. ''But don't let anybody tell you they can accurately value the share market – share market valuation is the darkest of dark arts.''

Another forecaster with a bright medium-term view is AMP Capital Investors chief economist Shane Oliver, who has set a target for the All Ords of 5500 by the end of next year.

Although that is significant growth in the year ahead, it still leaves the market well down on its previous high of 6850 points, he says.

Clearly there will be no plain sailing for some time, and short-term to medium-term volatility and uncertainty remain.

''Nobody has a crystal ball – at the start of the year I was pessimistic like everybody else,'' says Marinis Financial Group strategist Theo Marinis.

''Our perspective has always been to buy and hold the market. You tilt it at times but stay invested.

''Even though we tipped the fall, we didn't tell our clients to get out.''

Back in April 2007, Marinis, like many forecasters, warned of a looming share market correction.

''Nobody foresaw how bad it would be,'' he says. ''I thought maybe a 20 to 30 per cent fall was in the pipeline but nobody forecast 55 per cent.''

Many analysts are also still worried about a ''double dip''.

''There's a lot of headwind,'' Marinis says.

''Growth won't go back to the way it was between 2003 and 2007, and October's always a spooky month psychologically. I would expect a pullback.''

Long term, Marinis says, the outlook is good.

''From what we are seeing the medium term looks good, too, but you can't be sure that in six to nine months' time things won't start to go sour again,'' he says.

''Now is not the time to go out and get greedy.''

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
67 Kensington Road, Norwood SA 5067 T 08 8130 5130 F 08 8331 9161 E admin@marinisgroup.com.au
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