

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the March 2012 edition of the Martin Bros. Monitor.

The Road Rather Not Travelled

This is the eleventh year of Martin Bros Monitor's (MBM's). All past ones are available at our website, www.martinbros.com.au, for anyone who would like a trip down memory lane. Long time readers will be familiar with the below chart that gets a run every two years or so. This chart is the ASX200 over the last twenty years (non accumulation index ie. Excluding dividends). As you can see, over the last twenty years the market has always returned to trade within the trading band highlighted. We included this chart in a 2009 edition of MBM at close to the depths of (GFC) despair to highlight that the market does and will recover. We had that recovery and the market traded within the band for over a year before eventually falling below the lower band in the second half of last year.

The market fall from 5,000 points last April is now about nine months in duration (although it has traded sideways over the past four months). It's easy to get wrapped up in the day to day emotion of sharemarket moves, but it is timely to remember that the market rarely trades at fair value. This is what creates a market – different opinions and most importantly, sentiment. The over-riding sentiment can last many months, if not years. After the dot com bust in April 2000, the market traded sideways and lower for just under three years until it ultimately bottomed in March 2003 (in the middle of the below graph where the market is below the band).

By this time, many people had become despondent with the sharemarket and almost every commentator, economist and fund manager was proclaiming that the golden era of the 1990's was over and the sharemarket will not deliver double digit returns (ie. 10% or more) again in a year. From that point the market had four years of double digit returns. And it all began when there was no reason for it. People weren't optimistic about the economy, the global political situation or the sharemarket. By the time the

general consensus went positive, we were about 75% of the way through that bull market.



As always, we are not suggesting that you can predict the near term outlook of the sharemarket by looking at the embedded chart. But we will recover strongly at some point and we will return to trading within the documented band at some point. There are many reasons why an educated and learned person could tell us “why this time is different” (eg. Europe debt problems, China slowing, high \$A) and that we will not recover. The simple fact is, they are wrong. Below is the same chart that was in our March 2009 edition of MBM. We said the same thing then. Look how far below the trading band we were then. It seemed improbable and almost impossible to think at the time that we would recover to trade within that band, let alone up to the top end of it.



Throughout prolonged periods of the market trading sideways or even down, many good quality companies continue to pay dividends, often fully franked, and many even increase their dividends during these periods. The recent reporting season is no different. For those people retired and living from their hard earned savings, some degree of price volatility is necessary to ensure income growth over time (from growing dividend streams). Providing the majority of a portfolio is likely to have consistent income generation, such as the portfolios we manage, and you are not drawing down an excessive level of pension relative to your capital base, then short term sharemarket movements (ie. Three years or less) are nothing to get overly concerned about.

For those people still adding (contributing) to their asset base, then periods such as the one we are in are extremely beneficial to your long term wealth creation. Everyone likes to see a share they buy go up in price as quickly as possible, hopefully even the day after they buy it. However, if you are a long term investor (five years or more) and have the ability to add more capital to your savings base (ie. You are a net buyer over time), you will benefit more from static or falling share prices. Why? Because a business that can incrementally increase its earnings per share year on year will be worth a lot more in 5, 10 and 20 years than it is today. The share price will not be consistent in terms of its annual return though. So the longer a quality asset can be bought at a cheaper or discounted price, the greater the ultimate value of your holding will be. This is the principal behind dollar cost averaging.

Warren Buffet, the world renowned CEO of American listed investment company, Berkshire Hathaway, recently provided a very good analogy in his annual letter about this very concept. His analogy was this "Emotions however, too often complicate the matter: Most people, including those who will be net buyers in the future, take comfort in seeing stock prices advance. These shareholders resemble a commuter

who rejoices after the price of petrol (sic gas) increases, simply because his tank contains a day's supply". Warren Buffet publishes an annual shareholders letter and the Berkshire Hathaway website has a copy of these dating back to 1977 for anyone interested

(www.berkshirehathaway.com/letters/letters.html).

There are plenty of reasons to be sceptical right now, and plenty of people are. Experience tells us that the majority just don't have a crystal ball that works very well. For the net savers, you can only hope the "herd" are right. For those that are retired, keep enjoying gross dividends that are twice that of falling bond/term deposit rates.

Easter ASX Trading Hours

The Australian Stock Exchange hours over the upcoming public holiday period are:

- Thursday 5th April Normal Trading
- Good Friday (6th April) Closed
- Easter Monday (9th April) Closed
- Tuesday 10th April Normal Trading