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OUTSIDE THE FLAGS

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# The Year that Wasn't

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A routine task for financial journalists at this time of year is to write a summary of the year in markets and to survey economists on their expectations for the coming year. These so-called 'year-enders' are worth revisiting 12 months on.

If you think back to late 2018, the mood was unremittingly gloomy. Global share markets had posted their worst annual performance in seven years. The Aussie market had fallen about three per cent over the year, its first decline since 2011.

When journalists were writing their reviews, markets were particularly volatile. The fourth quarter was a difficult one amid headlines about the US-China dispute, Brexit, interest rates and warnings from IMF of a slowdown in global growth.

Against that backdrop, many economists quoted in these reviews were pessimistic about prospects for 2019. *ABC News* in Australia ran with a story saying experts were predicting a bumpy ride for domestic shares in the coming year.[1]

Alongside the global issues, the Australian market also faced local uncertainties in the looming final report of the Hayne Royal Commission into financial services, plus a federal election that polls suggested would lead to a change of government.

Currency markets were feeling the heat as well, with the Australian dollar falling to a 10-year low beneath 70 US cents as the year turned. Analysts quoted by *The Guardian* said the currency was a victim of mounting concerns about global growth.[2]

In another year-ender, *news.com.au* reported that Australia faced four "big scary factors" in 2019 – namely a sinking local housing market, slowing growth in China, the spectre of a US recession and major political uncertainty.[3]

1. 'Experts Predict 2019 Likely to be Another Volatile Year,' ABC News, 2 January 2019
2. 'Australian Dollar Hits 10-Year Low', The Guardian, 2 January 2019
3. 'Big Four Economic Dramas Australia Faces in 2019', news.com.au, 23 December 2018

It was an ominous mix of negative headlines and you can see how all that bad news might have prompted investors to seek a safe harbour while the storm passed.

The problem is it didn't turn out that way. Yes, a year on the US-China trade dispute is still grinding on. Yes, Brexit is still hogging the headlines. Yes, you don't have to look far to find downbeat commentary on the global economic outlook.

But with the fourth quarter nearing its end, global share markets have had a pretty good year. The US market was at record highs at time of writing, having risen about 25% in 2019. The Australian market was up around 20% and the NZ market about 25% higher.

Interest rates and currencies also failed to match the forecasts. According to *The Australian Financial Review*, in its survey of economists[4], the official cash rate would remain unchanged through 2019 at 1.5%, while the Australian dollar would end the year around 70 US cents. As it turned out, the cash rate was cut *three times* to a record low of 0.75%, while the currency was below 68 cents with a month to go.

Of course, we don't know whether this will continue. Markets change as news changes. But it does offer a reminder about the risks involved in setting your investment strategy according to the headlines of the day. If you had acted on last year's gloomy commentary, you would have missed a year of substantial gains in shares.

The truth is news is about the past. What has happened is already reflected in prices. No-one knows what the future will bring. You can speculate, of course. And you may get lucky. But that's not really a sustainable way of investing.

A better approach is to build a diversified investment portfolio that matches your risk appetite and that maximises your chances of getting to your goal. Focus on things you can control, like costs and taxes. If shares have had a great year, your advisor might recommend rebalancing to ensure you're not taking any more risk than you intended.

It also pays, as we've seen, to view investment year-enders with scepticism. The economists quoted are doubtless smart people. And their assessment of the risks around geopolitics and economics may be valid.

But the truth is the market already knows all of that. The headlines, and the views of all the economists and analysts and journalists, are already reflected in today's prices. They can make educated guesses about the outlook, but they're still guesses.

Follow the news by all means. It's good to stay informed. But be wary about using the news as an investment barometer. Listen to your advisor instead.

4. 'Quarterly Survey of Economists', Australian Financial Review, 1 January 2019


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