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MEDIA RELEASE
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Investors becoming increasingly bearish.

Investors in Australia have become increasingly bearish about the prospects for investment returns from Australian equities. As a result, many have used the past two months to reduce their exposure to the Australian share market in favour of fixed interest (bonds) and cash.

The **Australian Investor Sentiment Survey** for May, conducted last week by the Australian Investors Association (AIA) and FNArena, shows that while a majority of investors remains "Neutral" on the outlook for the share market, the gap between Bears and Bulls continues to widen in favour of the Bears.

While results for both Surveys show minor differences, as was the case in March, the trend towards a bearish view is a stand out in both surveys. Responses to the three surveys conducted by the Australian Investors Association (AIA) so far this year show a gradual migration from Bulls towards Bears over the period.

In May, of over 400 respondents, 11.4% were bullish about the market, 35.1% bearish and 54.7% were neutral. This represents a significant change from the earlier surveys as shown below:

	Bullish	Neutral	Bearish
January	31%	54%	15%
March	21%	52%	27%
May	11%	55%	35%

Of the 267 respondents to the FNArena Survey, only 7% were Bullish, 41% Bearish and 52% Neutral. These numbers compare with 26% being Bullish in March, 20% Bearish and 54% Neutral.

In another measure started in March, overall confidence took a significant step back with the AIA Investor Confidence Index retreating from 54 to 49. At FNArena, where this question was included for the first time, confidence didn't reach higher than 46.

The AIA Survey asked whether investors expected markets to be higher in 6 months, 38% responded 'yes', 31% 'no', and 32% 'the same". Corresponding percentages at FNArena are 31%, 20% and 49%.

Clearly while uncertainty continues for most investors, there is a growing number who see only bad times ahead.

"The majority of investors remain in the middle. However, they are even less bullish than earlier this year and less confident that improvement in the market is in sight," said Alison Harrington, President of the AIA.

"Many investors commented that they expected to see gradual but small corrections in global markets. While some remain optimistic, others are glad that they are heavily invested in property which they see as offering stability and preservation of asset values," she added. "Overall our members remain cautious in how they approach markets for the rest of this year."

According to FNArena Editor Rudi Filapek-Vandyck, a growing group of respondents seems to have become frustrated by the multiple headwinds that are impacting on investment portfolios including a strong Australian dollar, vulnerable property markets and a sideways tracking share market.

There's plenty more to feed investors' frustration: the possibility of the Reserve Bank raising interest rates, the likelihood that there will be a slow-down in China affecting our resource boom, the carbon tax, the change in the Senate composition in July and above all, the debt/deficit problems in most economies in the Western world.

"Australia is a commodity base country and the health of our markets is based on the price and volume of commodities exported. Commodities are now starting to decline in price," says one investor.

Another is quite pessimistic: “It will take time for this big correction. Six months will be on the way, more to go.”

Glenn from Perth sums the current quandary up as follows: “Trying to diversify in the current market is a challenge given that all categories are at serious risk - even cash.”

Joseph Ellul from Sydney expresses “great concern” regarding the strong Australian dollar. “The carry trade can be hurtful to Australia and as an investor I can see some dark clouds right over us. For now, I am keeping away from shares, but saying this, I am still on the lookout for the right time to jump back in.”

Frank Vandersman (Adelaide) is equally keen to buy in dips. For the short term he says avoiding losses remains the highest priority.

Agrees Matt from Brisbane: “Probably not a time to be a hero in the markets.”

With such views portfolios were very variable. Equities at AIA averaged 40% of portfolios (down from 53% in March), property 22%, fixed income 19% (almost doubled since March) and cash 17%. This shows a steady march out of equities into fixed interest and cash since earlier in the year.

Survey results at FNArena equally showed a decline in equities exposure (to 46% from 53%) and a rise in cash (to 22% from 19%) but without the corresponding rise into fixed interest.

Some property investors were quite outspoken about the virtues of their investments: “Have always trusted property as there is usually some consistent return in times of economic crisis. Even though property can lose value and be difficult to sell in a bad market, it will never be totally lost or devalued to the extent that some shares portfolios can. The plus for shares is that they are more liquid. I keep some cash for this reason as well as I think cash is essential in these difficult and uncertain times”, says one investor.

Others expressed their frustration as they believed property prices were too high and poised to fall, completing the short term conundrum for investors. “Which asset class can you back with confidence?”, asks one respondent. “Real estate prices in Oz are absolutely ridiculous. The fundamentals at present appear awful and rightly so.”

The Investor Sentiment Survey asked members at AIA and FNArena how they felt about the market and how they were invested. It was conducted over three days in May 2011 and will be repeated in two months.

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About the Australian Investors Association

The AIA is an independent, non-profit organisation aimed at helping its members become more successful long-term investors. More information can be found at www.investors.asn.au.

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