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MEDIA RELEASE

- FOR IMMEDIATE RELEASE –

Investors Raise Cash As Share Market Weakness Hits Sentiment

The worst start on record for Australian equities leading into the new calendar year has had a noticeable negative impact on investor sentiment.

The **Australian Investors' Sentiment Survey** for January, conducted by Australian Investors' Association (AIA) and FNArena, suggests investor sentiment short term has deteriorated significantly, while the number of bulls on a medium to longer term view has now shrunk to low percentages not witnessed since the volatile days of 2011-2012.

Investors have responded by raising the average cash level in their portfolio to 21%; above the 18-20% range that has been in place for three years, since early 2013.

The shift in sentiment is in sharp contrast with the cautious optimism that dominated in the previous Survey in November. Back then most investors seemed willing to bet equities had probably seen the worst.

Current Sentiment:

	<u>Nov-14</u>	<u>Jan</u>	<u>Mar</u>	<u>May</u>	<u>July</u>	<u>Sep</u>	<u>Nov-15</u>	<u>Jan-16</u>
Bullish	16%	14%	31.5%	15%	21.5%	14%	17%	8%
Neutral	58%	61%	54.5%	64%	60%	51%	61%	43%
Bearish	26%	25%	14%	21%	18.5%	33%	22%	49%

A similar picture emerges when we look at sentiment towards equities on 6-12 months out horizon. The number of respondents with an outright negative view has now spiked to 26%, with the gap between the bulls and those with a cautious/neutral view shrinking sharply; 38.5% versus 35.5% compared with 44.5% and 33.5% in November.

Markets Higher in 6-12 Months Time?

	<u>Nov-14</u>	<u>Jan</u>	<u>Mar</u>	<u>May</u>	<u>July</u>	<u>Sep</u>	<u>Nov-15</u>	<u>Jan-16</u>
Yes	40%	39%	40%	43%	47%	46%	44.5%	38.5%
No	25%	25.5%	23.5%	25%	24%	24%	22%	26%
Same	35%	35.5%	36.5%	32%	29%	30%	33.5%	35.5%

The Australian Investors' Sentiment Survey has been conducted every two months since early 2011. Throughout this period the highest level of cash held peaked at 26% in September 2011.

The lowest level was recorded in July last year, at 17%, when respondents indicated more cash had been allocated towards property and fixed interest.

Since early 2013 average cash in portfolios has ranged between 18-20%. At 21% in January, the average cash position is now highest since 2012, and the average equities allocation, at 51%, the lowest.

Average Investment Portfolio Allocations:

	<u>Nov-14</u>	<u>Jan</u>	<u>Mar</u>	<u>May</u>	<u>July</u>	<u>Sep</u>	<u>Nov-15</u>	<u>Jan-16</u>
Equities:	53.5%	53.5%	55%	54.5%	52.5%	51.5%	54.0%	51%
Property:	17%	17%	17%	17%	18%	17.5%	16.5%	17.5%
Fixed Income:	11%	11%	9%	10%	12.5%	11.5%	11.0%	10.5%
Cash:	18.5%	18.5%	18.5%	18.5%	17%	19.5%	18.5%	21%

Commentary provided by respondents shows, surprisingly maybe, little evidence of panic. A common theme is that lower prices will simply provide buying opportunities longer term.

Chinese economic problems and media sensationalism are mentioned as major contributors to the share market volatility. A number also opined that market volatility likely was a necessary result of economic imbalances caused by widespread quantitative easing and low interest rate strategies.

A representative opinion was expressed by one AIA respondent's comment:

“Current fears and volatility are overdone. There is no imminent economic catastrophe on the horizon as was the case in 2007. Australian and Chinese shares are not expensive, with Australian shares currently priced on an aggregate P/E of 13.9. Cooler heads will prevail and will drive renewed investment in the Australian stock market in the coming months.”

One FNARENA respondent offered the following advice: “Don't sell in panic when things go bad as they are at present, things may look grim now but it will improve.”

Another AIA respondent opined: “I think we are in for a long period of volatility. In my opinion we are still experiencing fallout following the global financial crisis. Central banks lowered interest rates way below normal levels and tried to boost their countries' economies with quantitative easing. I believe it will be many years before markets recover from this intervention.”

The FNARENA/AIA Confidence Index took a dive to 49% from 55% in November. The index hasn't been below 50 since... 2012. The index has been as high as 61.50% in January 2013 and as low as 40.5% in May 2012.

FNArena/AIA Investor Confidence Index

<u>Nov-14</u>	<u>Jan</u>	<u>Mar</u>	<u>May</u>	<u>July</u>	<u>Sep</u>	<u>Nov-15</u>	<u>Jan-16</u>
54%	55.5%	58%	55%	59%	53%	55%	49%

The Investor Sentiment Survey asked members at Australian Investors' Association (AIA) and FNArena how they felt about the market and how they were invested. The Survey will be repeated in two months (March 2016).

263 respondents participated through AIA and 327 through FNArena.

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