



The Australian Share Market: *New Beginnings*



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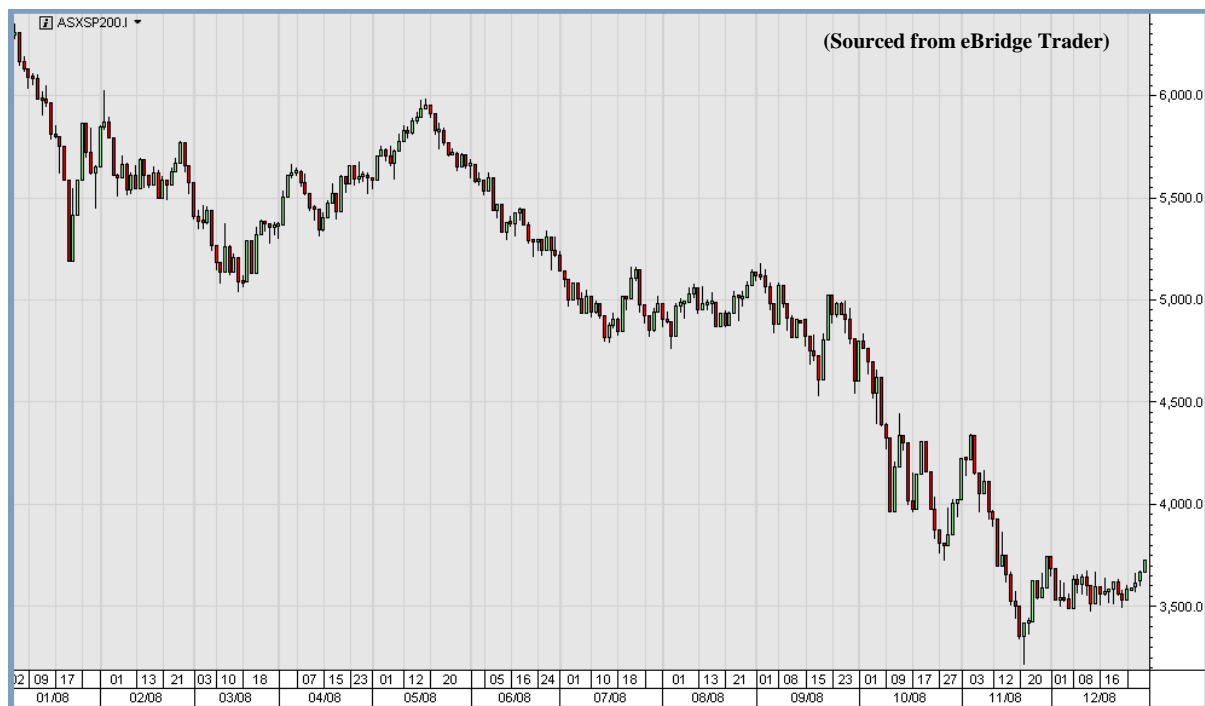
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Nobody needs to be reminded about the volatility in the share market and the extent of declines suffered during 2008. A quick visual below of the ASX 200 chart over 2008 speaks volumes on the severity of the decline. The pertinent question then is not where we have been, but where we are going? More importantly, *is there an opportunity to make money from the share market in this environment?*



XJO - ASX 200

More Selling to Come?

To buy shares now it makes sense that you need to believe that share prices will rise in the future. The consensus view is that things will get worse before they get better. You only need to pick up a newspaper to confirm this current negative view. However the consensus view, no matter how widespread, is not necessarily the correct view. We all know that bad news sells so there is a vested interest in accentuating the negative in the current climate.

Bad News Bears

Bad news that you are seeing in the newspapers today has largely been factored into share prices already. It is therefore possible that we could continue to see further deterioration in the economy without necessarily leading to further falls in the share market. This leaves potential for significant upside in shares should things pan out better than anticipated.

Share Market is Forward Looking

The share market looks to the future to determine current share prices. It is the expectation for future company earnings, more than anything else that has the biggest impact on share prices today. Share prices tend to reflect now what is likely to happen six to twelve months in the future. In other words the share market has already anticipated that things are going to get worse in the economy before they get better.

De-Risking of the Australian Share Market

With many Australian *blue chip* shares more than halving in value over the last year, there is a case that the share market has to a great extent been *de-risked*. Does this mean that there is no longer any risk associated with buying shares now? Of course the answer is no. However the speculative *froth* has been removed from the share market and we are now down to valuations that are much more attractive and realistic in relative terms. This means that the downside risk in *blue chip* shares while still there, is much more manageable.

Shares Offer Attractive Dividend Yields

Falling share prices have led to relatively high dividend yields. This has made owning Australian *blue chip* shares increasingly more attractive than the alternative of parking your money in a cash term deposit. When combined with the unique tax benefits that shareholders enjoy by way of franking credits (tax credits you receive on dividends to potentially offset against other tax obligations), shares are hard to beat as a significant income producing asset class.

Serious Times Call for Serious Action

Make no mistake we are in the midst of a very serious economic crisis. However the actions being undertaken to remedy this situation are extraordinary and unprecedented. You can be sure of one thing; if things don't get better it certainly won't be from a lack of action on behalf of governments and central bankers! Some of the measures undertaken include:

- Unprecedented global liquidity injection.
- Aggressive worldwide interest rate reductions.
- Massive government fiscal stimulus packages.
- Government takeover of various institutions crucial to market integrity.

Australia the Lucky Country?

Is Australia better placed than most countries to weather this economic storm? There is no doubt that the recent resources boom combined with good economic management, has helped to put Australia on a sound economic footing. This is beneficial because it gives policy makers more options to deal with the current downturn.

On a corporate level the strong economic growth has translated into several years of solid earnings and profit growth. This surge in company profits has led to a general strengthening of company balance sheets. This means that companies in this cycle are

for the most part better placed to withstand the current downturn in the economy. They are therefore likely to bounce back quicker when economic conditions turn around. Recent significant actions or events could also cushion the severity of the economic downturn in Australia. They include:

- Substantial interest rate reductions by the Reserve Bank.
- A willingness to further reduce interest rates if required.
- Substantial government cash and infrastructure spending initiatives.
- Massive \$US570 billion Chinese infrastructure spending package.
- Cushioning effect of lower Australian dollar to help offset lower commodity prices.
- Australian banking sector amongst the best placed in the world.
- Substantial decline in oil prices.

Over time these measures should help to provide a much needed impetus to the Australian economy, and in turn help boost earnings and share prices of companies trading on the ASX.

What are the Risks of Entering the Share Market?

Given that we may have seen the worst already, what stops us from entering the share market right now? Obviously the answer must be fear. Specifically those fears can be summarised into the following:

1. Further Market falls

The fear is that we buy now only to see share prices fall further.

2. Timing

You could tie up your capital waiting for a share market rally.

3. Volatility

There is too much volatility in the share market at this time.

If you are considering entering the share market at this time, it is important that you understand the risks as outlined above. Not only is it important to address these risks, but it is necessary and prudent to do so in the current environment.

Let's Talk about Strategies that Work

Is there a way to not only address the ever present risks of *further market falls*, *timing* and *volatility*, but to actually take advantage of them by using them to your benefit? The answer is yes. In the following pages you will find some carefully selected strategies ideal for the current volatile environment.

The selected strategies also have many of the following features in common:

- ✓ *Limited risk*
- ✓ *Unlimited profit potential*
- ✓ *Regular cash flow generation*
- ✓ *Profit potential in up or down markets*
- ✓ *No margin required*

All of the strategies revealed in the following pages possess a unique characteristic or *edge* which helps to tilt the odds squarely in your favour. These strategies have been successfully implemented by traders all around the world and are simple to understand and apply. They address the important question of risk, provide good profit potential, and give you total control of your investment.

Whether you are a first time investor or an experienced share market trader, these strategies will arm you with the knowledge, confidence and peace of mind to successfully invest in the share market.