

Blowing in the wind

Tim Farrelly | farrelly's | 03 February 2014

Late last year, the results of a research report on asset allocation trends and intentions of financial planners crossed my desk. The summary reported that growing investor and planner confidence had seen money START (farrelly's emphasis) to flow from cash into growth assets – and, advised clients were allocating more of their capital to international investments than at any time since the GFC, with US assets especially popular.

Should we be surprised?

Perhaps not – but I certainly was. A voice in my head starting singing the old Bob Dylan classic "How many times...". I had really thought that maybe, just maybe, our industry had learned something over the last decade.

But apparently not. How can it possibly be that a market somehow looks more attractive after it has risen by 168% over four and a half years than it was at any time during that period? How can it be that a market can rise at the rate of over 24% per annum for over four and a half years before the industry starts to take notice? Why is it that investors find paying 20 times peak cycle earnings more attractive than paying 10 times earnings?

By farrelly's reckoning, the US market is currently the most expensive major sharemarket in the world – not overpriced, to be fair, but offering a tiny premium of around 1% per annum above a very skinny US Government bond rate. Is that really where we should be increasing clients' capital flows?

Buy high, sell low still seems to be the preferred strategy for many financial planners.

It is not a crime to make honest but dumb investment decisions – and quite rightly so because all mistakes tend to look dumb with the benefit of hindsight. Nonetheless, who is worrying about the structure of an industry that is so crucial to the futures of so many Australians, and yet continues to make such terrible decisions? Is this the responsibility of ASIC? One of the plethora of industry associations? Who?

Regardless, the report did contain some good news. Advisers who make disciplined, value-aware investment decisions on behalf of their clients continued to enjoy a massive advantage over the majority of their competitors. Long may they flourish!

Buy high, sell low? It's nuts and you can clearly see it's nuts!



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