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# What’s behind the Australian sharemarket rollercoaster? A SmartCompany Q&A

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The rollercoaster that is the Australian sharemarket shows no signs of stopping just yet. On Monday, more than $38 billion was wiped off the value of the local market as shares plunged 2.7%. Yesterday, the ASX 200 rose 1.28%, helping investors recover at least some of the lost ground.

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The only certainty, it seems, is volatility. When markets are as nervous as they are now, investors can overreact to good or bad news, pushing the market sharply down and then suddenly up.

This is particularly true of the US market, as Alan Kohler **pointed out yesterday**, when he quoted respected analysts Dave Rosenberg of Gluskin Sheff: "In the past 30 trading days, the difference between the intraday low and high in the Dow has exceeded 200 points in 23 sessions or over three-quarters of the time. That's insane."

But what's driving this volatility? The Australian market is being buffeted by a range of domestic problems and a host of global issues, so let's try and explore them with a SmartCompany Q&A.

**The market is up one day and down the next at the moment, but what are the longer term trends here?**

If we look back over the last 18 months or so we can really see how big this rollercoaster ride has been. As the GFC took hold in late 2008 and early 2009, Australian stocks were hammered and the ASX 200 hit a trough of 3145 on March 6.

But as the GFC gloom started to clear, the market took off, rising an impressive 59% to hit a peak of 5001 points on April 15 – a level not seen since late 2008, before Lehman Brothers collapses.

But since that April peak, the trend is all downhill and the market has fallen over 12% to close last night at 4381 points.

**Gee, it has been an ugly few months. So does all of this turmoil go back to those debt-laden Greeks?**

There are a number of things affecting the Australian market, and yes, it all really does start with Greece, or more specifically concerns that one of the debt-laden European nations – a list that includes Spain, Portgual, Ireland, Italy and now Hungary – might default on their debts. This would likely pummel banks in Europe, and the pain would quickly spread to banks around the world – much like it did during the GFC, although the fallout probably wouldn't be so bad.

**But I thought they bailed out Greece?**

They did, but this isn't a problem that can be sorted out quickly. Nations throughout Europe are struggling under mountains of debts and their precarious financial positions is forcing them to take drastic (and very unpopular measures) to cut that debt, primarily raising taxes and cutting spending.

Of course, these austerity measures aren't exactly great for stimulating economic growth, which means big chunks of Europe face a prolonged period of pain – mountains of debt, harsh austerity measures and sluggish economic growth.

And it's not just Europe. The United States is saddled with $US13 trillion worth of sovereign debt, or 88% of GDP. Sooner or later, the US Government will need to take some measures to reign in their borrowings at some stage.

**That will be popular, won't it? What else is weighing on investors?**

China. While the world's powerhouse economy has played a crucial role in keeping the global economy growing (and an even bigger role keeping Australia's economy growing) there are growing fears that some sectors (particularly property) are overheated and the Chinese Government may be forced to take steps to take the heat out of the economy. That would have a big impact on global economic growth, and particularly Australia.

**These are global worries. What are local investors particularly worried about?**

The Resources Super Profits Tax is getting a lot of headlines at the moment, and it is clearly weighing on the market – remember, the resources sector accounts for 22% of Australia's market.

The other issue is the patchy economy. In last few weeks we've seen profit downgrades from companies in airline, transport, construction, retail, digital and logistics sector, suggesting economic conditions remain patchy, and the recovery might not be as strong as suggested.

**Right. Is there any good news on the horizon?**

There are clear signs the global economy is recovering despite all this turmoil on financial markets. Take last night, when we saw that German industrial production rose at its fastest pace since re-unification, rising 13.3% in April, and that the Brazilian economy is growing at 9%. The US economy has shown signs of growth in the last few months too, and Canada and India are also performing reasonably well.

**What about in Australia?**

We're still doing much better than a lot of other parts of the world. Our resources and banking sectors are doing well, and they make up the bulk of our market. Rising rates might be shaking the confidence of businesses and consumers, but the economy looks likely to grow by around 4% over the year. Employment is holdings, house prices remain strong, and our proximity to China is still a huge strength.

**Right, so surely this current correction shouldn't be the basis of a long-term bear market?**

That's the $64 billion question and really the confusing thing here.

Yes, the global economy is in recovery mode. Yes, some of these big debt problems are being addressed. Yes, in places like Australian the fundamentals of the economy are good.

But the problem is, it seems this good news is not really getting much traction with investors - the huge amounts of debt around the world are putting doubt into investors' minds and the other issues (China, the RSPT, the state of the local economy) are compounding these concerns.

**So there's more volatility ahead?**

Yes, and the smart money suggests investors should brace for further falls, particularly over the next six weeks or so.

Earlier this week in **Eureka Report**, Alan Kohler pointed to Swiss research showing markets almost always fall during the World Cup soccer tournament. After studying 11 World Cups over the past 41 years, they found the average performance of the US stockmarket over the period of the tournament has been minus 6.25%.

**If it's not one thing, it's another.**

It's a perfect illustration of why investors always need a very long-term view to sharemarket performance.

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