

# What time is it?

An analytical 'clock' from 1937 has been dusted off and is starting new conversations about investment strategies, according to Bourse Communications managing director **Rod North**



**W**hile some investors may consider the global financial crisis and current market

conditions to be totally unprecedented, many industry insiders are pointing out that the stock market crash of late 2007 was not only similar to previous crashes but it could also have been predicted.

Bourse Communications managing director Rod North – who has written a book titled *Understanding the Investment Clock* (see page 10) – said many people were unaware of the common market cycle and how it has influenced contemporary market conditions.

“People say history doesn’t repeat itself, but I started working in shares in the early 1980s and it hasn’t changed at all over that period,” he said.

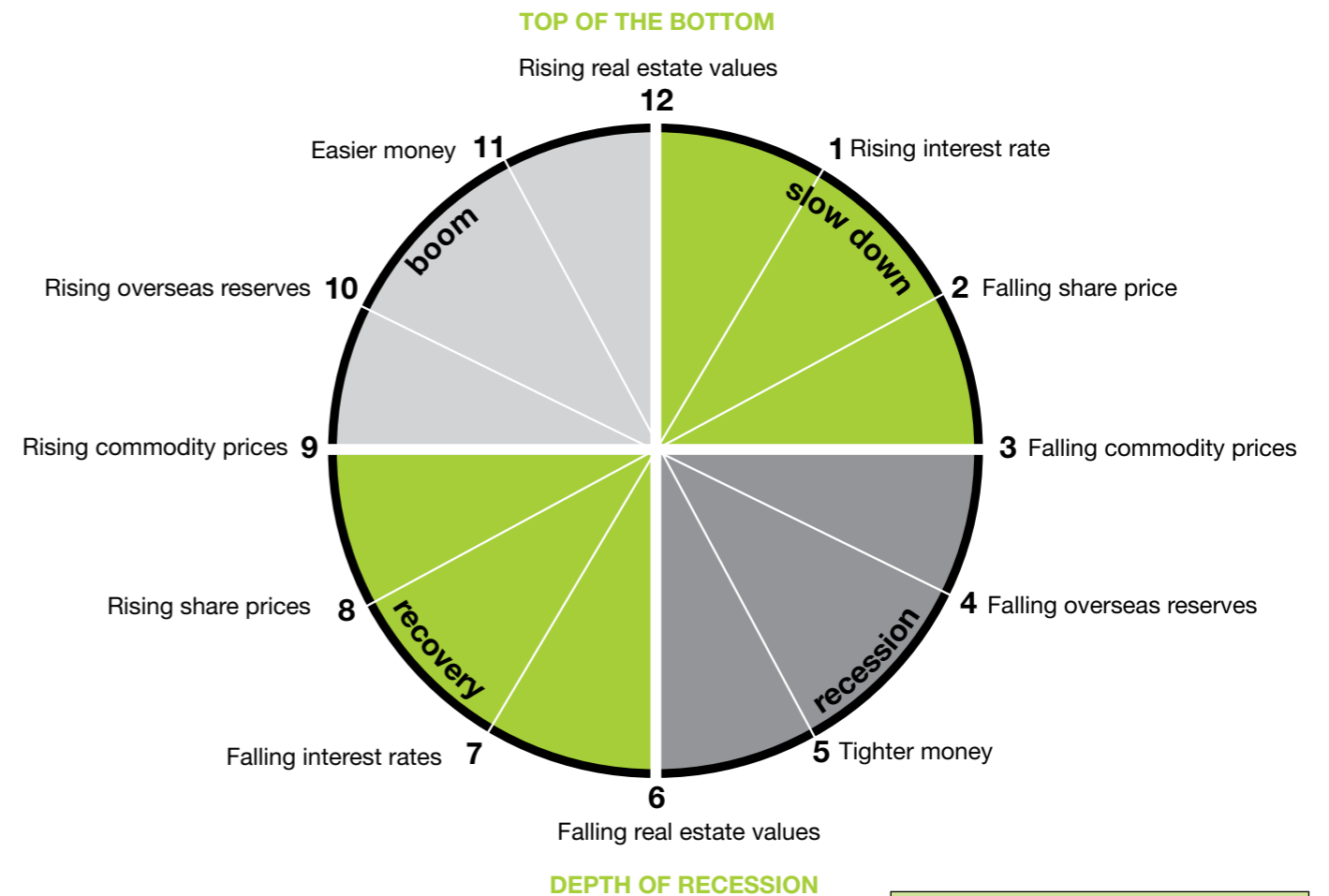
“We have moved from boom to bust and from the greed cycle to the fear cycle and back again ever since that time. There is no huge rocket science in it. In some cases you see bigger rises and falls in the share markets and interest rates but they generally move in about eight- to 11-year cycles.”

North said the original clock has been attributed to the London newspaper *Evening Standard* in 1937.

“I first became familiar with it when I started working in the share market and then I have looked at it on and off since then,” he said.

“In particular in late 2007 when interest rates got high I looked at the investment clock. That took us into the slowdown phase and you could tell the next step was that shares would fall dramatically.

“People may disagree with exactly where they think the hand should



be, because there is a degree of subjectivity about that, but it gets debate going and helps people to invest at the right time of the cycle.”

So where are we on the clock now, according to North?

“If you look at the whole cycle of the market, which generally is an eight to 11 year cycle, we have moved very quickly through the boom period – which peaked in late 2007 – and through the slowdown and recession phase in 17 months,” he added.

“What a lot of people don’t realise is that at the moment we are in a recovery phase because we have seen falling interest rates – it has come down from 7.25% to 3% and we have the lowest interest rates in 50 years for mortgage rates – and we have seen the market recover more than 20% since its low point in March.

“Yet most people aren’t even aware that we are in a recession or that we are in recovery now.

“People won’t come back into the market

in a meaningful way until they read about it on the front page of the paper – and of course by then we will be back in the boom.

“The boom is not the time to be taking advantage of investing in shares. The best time to buy is in the recession phase and recovery phase but people seem to make the same mistake every time around.”

And for those who bought in at the wrong time in the cycle there is still some hope.

“The interesting thing that restores faith is that looking at the All Ordinaries for the past 109 years shows that the market has always reached and surpassed its previous peak every time [there is a downturn or crash],” North said.

“There is no reason why that won’t happen. When you drive up Kings Way in Melbourne you can see the ASX sign. I can remember looking at that many times wondering how it could be 6000 – but one day we will be driving up there and it will be 10,000 in the next few years.” **W**

## How to use it

**Develop a countercyclical strategy.** The theory of selling for more than you paid is self explanatory, but by using the investment clock appropriately it is easier to understand where the market cycle is expected to move next. By buying when others are selling and selling when others are buying an astute trader is guaranteed to maximise their profit.

**Use it with your own financial strategy.** Several investors are now questioning the wisdom of leaving all the decisions in the hands of their financial planner. By remembering your own understanding of the current “time” on the clock, when talking to your financial planner you will be able to gauge if they have the same attitude to risk and opportunity as you.

**Get talking.** There is no exact answer to the question of what time it is on the clock, but by discussing the issue with professionals and looking for key indicators it will increase your financial literacy and your ability to take advantage of opportunities.