

## Strategy Notes September 2017 – Looking Abroad

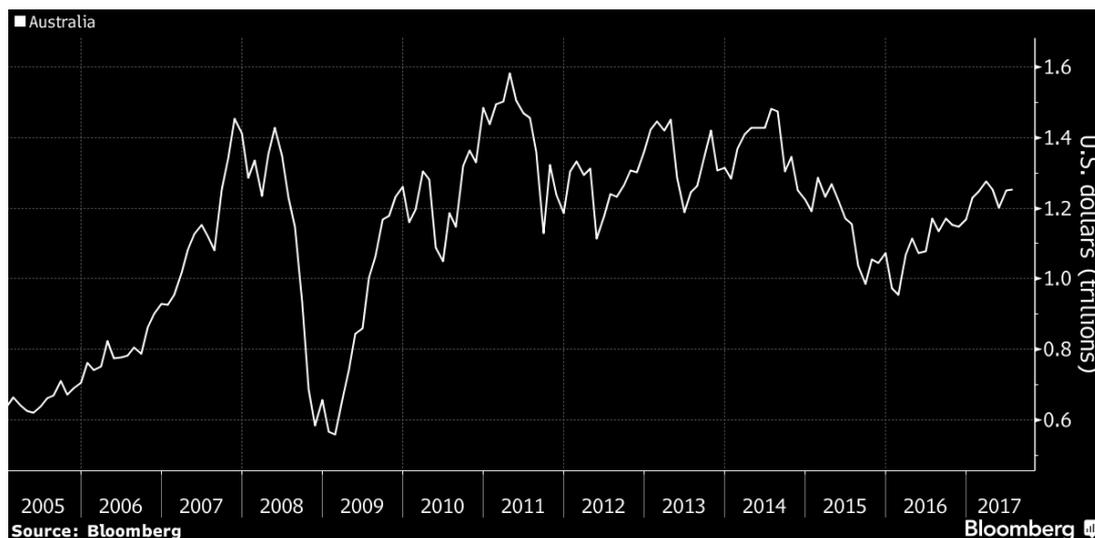
With the ASX All Ordinaries Index shortly approaching ten years since reaching its previous all-time high, the inevitable rumblings of the 'lost decade' in Australian equities will no doubt grow louder. The All Ordinaries Index enters October at 5791.3 points, still some 15.5% below the high water mark of 6853.3 reached on the 1<sup>st</sup> November 2007. The lacklustre performance makes for a catchy (if not disappointing) headline, though one should probably adjust for the raft of dividends paid by the larger index components over the period. If one uses the Accumulation Index (i.e. inclusive of dividends paid), the index has returned +29.14% from 1 November 2007 to the beginning of October 2017.

Whilst not an entirely unsatisfactory outcome, the return profile for local investors leveraged to the performance of the Australian All Ordinaries Index hasn't been overly spectacular either. Despite compounding a 2-3% GDP per annum growth rate through the period (and cycling the additional benefits of positive annual GDP growth since 1991), the benchmark Australian index has still managed to underperform the vast bulk of its developed market peers.

If the Australian share market were an individual to be characterised in a population survey, it would likely fit well into the 'older demographic' category. With a reasonable balance sheet accumulated via a lengthy period without meaningful economic hardship, the bulk of the larger companies in the Australian market have been content to drift into their own version of 'pension mode' – essentially living off the dividends generated from a dominant growth period established many years prior.

This is a natural part of the company lifecycle and the same experience has been echoed across equity markets worldwide. Perhaps somewhat unfortunately for the Australian market, however, is that we have yet to see the growth baton passed at the larger cap end to newer emerging businesses that are rapidly expanding into the 'new-world' economy. While a good number of global developed markets have seen the composition of their equity markets change dramatically in recent years (reflecting the rise of businesses highly leveraged to new technologies and opportunities), the Australian share market instead has a total market capitalisation *lower* today than it did at the end of 2007.

### Australia Total Market Capitalisation (USD's)



While some of this loss in market capitalisation has come as a result of corporate takeovers, it does illustrate the fairly disappointing growth outcomes achieved by...

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