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IS THE BULL HERE TO STAY?

The FTSE/JSE All Share Index hit a low of 18 120 just over a year ago on 3 March 2009. Since then the market recovered by 56,4% up to this year's high on January 11. Despite an 8,8% pull-back over the last four weeks, the market is currently 55% above its March 2009 low.

“Interestingly, only 15 of the 79 domestic general equity unit trust funds managed to outperform the FTSE/JSE All Share Index over the year ended 28 February 2010,” notes Dr Prieur du Plessis, Plexus Group chairman. “In South African this is usually blamed on the superior performance of mining and resources shares, however, this time it is not the case. The financial and industrial sectors outperformed the mining and resources sectors by a solid margin.”

According to Du Plessis, the underperformance of the general equity funds is most likely due to the fact that many managers were not confident enough about prospects for the equity market to take their portfolios up to a fully-invested position. Equity funds are allowed to hold up to 25% of their portfolios in cash.

“Many investment professionals across the globe remain sceptical about the current market recovery and stubbornly refuse to call it a fully-fledged new bull market,” says Du Plessis. “A recent study of first-year bull markets by US investment group Bespoke Investment Group, going back as far as 1935, shows the past year's recovery in the S&P 500 is the second strongest both in terms of performance and breadth.”

How does the local market compare? A similar study by Plexus Asset Management, based on monthly data from 1961, shows the first year of the current bull market is below average.

“There have been eight bull markets since 1961,” says Du Plessis. “The performance of the FTSE/JSE All Share Index for the first year of the current bull market is 45,0%, compared to the average of 52,5% (see accompanying table). It is also interesting to note no bull market in South Africa has lasted less than two years,” he adds. “In the period subsequent to the first year of all the bull markets the All Share has continued to rise significantly, with the lowest additional growth coming in at no less than 48,6%.”

Going by history, it seems investors may not be too late to increase equity exposure if they have missed out on the first year's growth. However, Du Plessis cautions that there is still significant risk.

“It is difficult to see the domestic market putting on another 50% plus any time soon,” he says. “While I am not negative on the longer-term prospects for equities, there will have to be significant earnings surprises on the upside for this to happen. However, until consumers start spending again it may be a while before there is more of the same. Investors should either phase money into the market at this stage or only top up on short-term weakness.”

FTSE/JSE ALL SHARE INDEX BULL MARKETS (based on monthly data from 1961)						
Start of Bull Market	End of Bull Market	Number of Months	Number of Years	1st Year FTSE/JSE All Share Index Performance	Rest of Bull Market	Total Bull Market Performance
29/02/88	30/04/98	122	10.17	50.53%	259.34%	440.90%
30/04/61	30/04/69	96	8.00	39.35%	303.53%	462.30%
30/06/82	31/08/87	62	5.17	111.28%	183.14%	498.23%
30/04/03	31/05/08	61	5.08	38.29%	206.58%	323.96%
31/08/76	31/10/80	50	4.17	21.26%	301.90%	387.36%
31/08/98	31/05/02	45	3.75	48.96%	67.85%	150.03%
30/09/71	31/03/74	30	2.50	65.07%	48.55%	145.21%
28/02/09	31/03/10	12	1.00	44.95%	Ongoing	44.95%
Averages		59.75	4.98	52.46%	195.84%	306.62%