

Essential long-term themes to guide your investments

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Sally Patten

In volatile market conditions it is more important than ever for investors to try to put aside the noise and focus on the bigger picture and the direction that markets are likely to take in the longer term.

As Shane Oliver, head of investment strategy and chief economist at AMP Capital Markets, points out, the daily barrage of information can be distracting, making it hard for investors to “see the wood for the trees”.

Leaving the see-sawing markets behind, here are seven long-term investment themes savers should bear in mind:

1. Sluggish developed economies

Developed countries will experience low growth. Future Fund chairman David Murray has predicted this could last for as long as 20 years; Oliver puts it at several years, while households and governments reduce their debt levels. Either way, the impact will be that investment returns are likely to be lower in rich countries;

2. Jittery investors

Given the extent of private and public debt levels in developed countries, extreme monetary policy settings, currency wars and greater government intervention in economies, investors are likely to continue to be unsettled and economic cycles could be more frequent and more volatile.

This mean that investors will need to be prepared to take a greater interest in their [asset allocation](#) and move between asset classes. Buy-and-hold strategies are unlikely to work as well as they have in the past. Oliver notes that investors would be wise to focus more on wealth protection by investing in sound high-yield securities.

3. Consumer stocks weaker

Reduced consumption in developed countries will weaken the outlook for consumer stocks that sell to the rich world. A lack of willingness to borrow is expected to dampen banks' top line.

4. Asia resurgent

With the developed world in the doldrums, [the rise of Asia can be expected to continue](#). “Strong growth along with sound macro-economic management, low debt levels, undervalued currencies and attractive valuations suggest non-Japan Asian equity markets will continue to outperform developed country sharemarkets on a five to 10 year view, notwithstanding occasional setbacks as we’ve seen recently on inflation concerns,” Oliver says.

5. Robust resources

Notwithstanding the recent sell-off, commodity prices are likely to be strong, “possibly accentuated by a continuing long-term downswing in the US dollar and the currencies of other major advanced countries,” Oliver says. As a result, [the outlook is positive for resources stocks](#) and the Australian economy, and further upside is likely in the Australian dollar, [gold](#) and oil.

6. An older world

[The ageing of the global population](#) is positive news for healthcare stocks, tourism and leisure; it could become a negative for equity prices as retirees move out of shares in an effort to lower their risk profile. This trend is borne out in a survey from research company Investment Trends which shows that over the two years to 2011 the amount of [cash](#) in self-managed superannuation funds (held in cash as an asset class, rather than waiting to be invested in other assets) has risen by \$75 billion.



Time to get moving ... buy-and-hold strategies are unlikely to work as well as before. **Photo: Mike Bowers**

7. Property deflates

The outlook for residential housing is poor in Australia. “With poor affordability and still low rental property yields, Australian housing is likely to provide poor medium-term returns,” Oliver says.

Smart Investor