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# Woodhall Weekly

## Key points

**Volatility:** Market volatility fell by the end of the week as the Greek crisis showed some signs of being resolved. Volatility is now at the average level experienced during the GFC.

**Fear:** Fear - or irrational volatility - almost got back into normal levels by Friday. Its future depends very much on the outcomes of the G20 meeting in Cannes over the weekend.

**Disorder:** Disorder - a measure of the lack of similarity in returns across sectors of the market - stayed within normal levels during the week and, indeed, fell to the low end of that range on Friday. A combination of normal fear and normal disorder bodes well for market recoveries so that we are close to having the conditions for a rally.

**Capital gains forecasts:** They jumped surprisingly to 11½% during the week reflecting an increase in the strength of broker forecasts of earnings and dividends.

**Market exuberance:** The Friday rally of 109 points took the market back to about where it was last week in terms of under-pricing. The market is still cheap by historical standards.

**Sectoral exuberance:** Much of the market under-pricing still resides in the resource-based sectors - including Industrials (mining services) - and Health but all of these sectors improved during the week to eroded some of the under-pricing.

**Summary:** Good jobs data in the US after our market closed will help our fortunes next week. Global political conditions are clearly operating on a knife edge but markets are coping. We had expected direction to be clearer by now but we didn't anticipate Greece wanting a referendum. That being said, the unexpected may well happen again next week

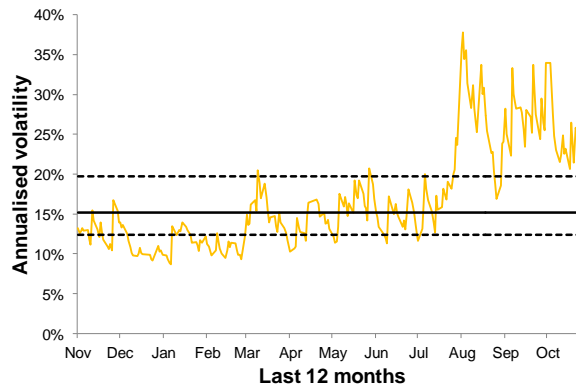
All data are sourced from Thomson Reuters Datastream.

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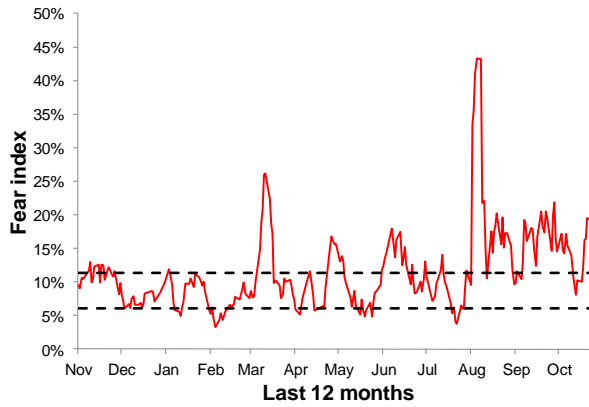
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**Chart 1: Daily volatility**



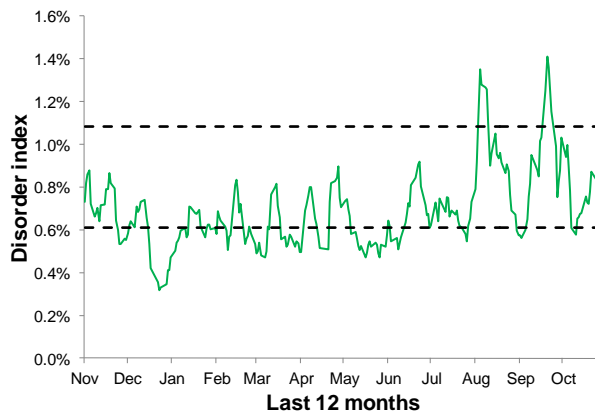
Notes: The solid black line denotes the current average volatility since January 2010; the lower dotted line denotes the average volatility pre GFC; the upper dotted line denotes average volatility during the GFC.

**Chart 2: The fear index**



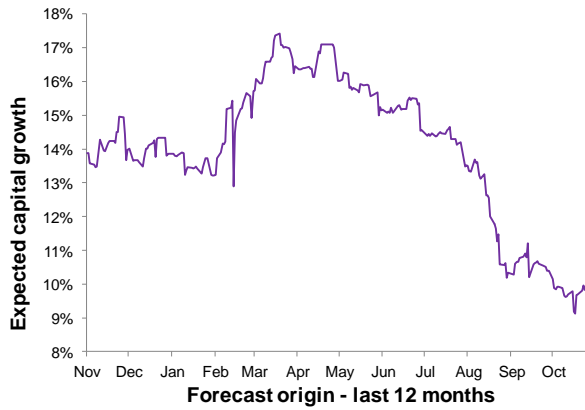
Notes: The two dotted lines denote the range where fear resided pre-GFC for two thirds of the time

**Chart 3: The disorder index**



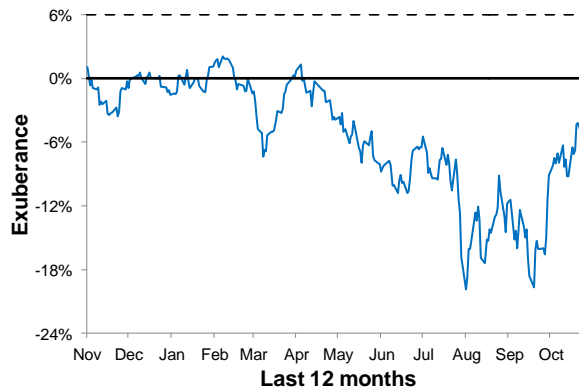
Notes: The two dotted lines denote the range where disorder resided pre-GFC for two thirds of the time.

**Chart 4: Forecasts of capital growth**



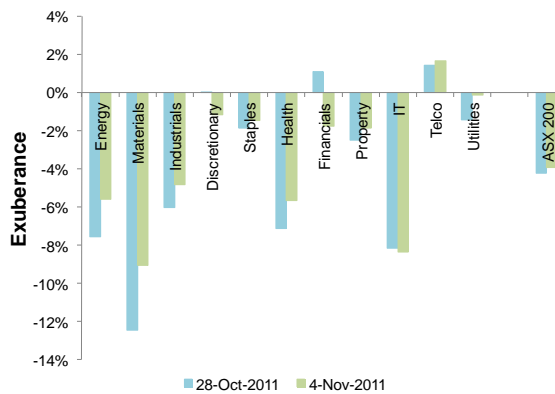
Note: These forecasts are updated daily for the following 12 months. Dividends should also be taken into account when assessing possible performance.

**Chart 5: Exuberance over time**



Notes: 0% represents 'fair pricing' and the dotted line at 6% represents possible overheating preceding a correction. Cheap markets (below the 0% line) can get a lot cheaper before they recover!

**Chart 6: Sectoral exuberance**



Notes: The Quant Quarterly on Woodhall's website should be consulted for a better understanding of how all six charts are constructed. The *Woodhall Weekly* is published for a more regular update of some of the charts in the QQ. These charts should not be used to make investment decisions but they can be useful in provoking discussions with a licensed professional.