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# Woodhall Weekly

## Key points

**Volatility:** Market volatility, perhaps surprisingly, fell towards the end of the week as Greece, Italy and Spain felt the heat in the bond market.

**Fear:** Fear - or irrational volatility - continues to stay above the normal range. However, fear this week was at much the same level as the previous suggesting that the share market is coping with European indecision rather than being panicked by it.

**Disorder:** Disorder - a measure of the lack of similarity in returns across sectors of the market - fell to below the normal range at the end of the week. The recent spike was confirmed as ex-div related price movements by the banks. Low volumes and sectors moving in harmony suggests that the market is sitting in wait for the next piece of news - maybe on the upside!

**Capital gains forecasts:** Forecasts climbed again - to nearly 12% - that is 3% above the recent lows. Corporate Australia is largely in good health and analysts are increasingly optimistic about its future despite European nervousness.

**Market exuberance:** Underpricing slipped back a little to about -6% as the market declined. This result implies that our estimate for where the market should be now is about 4,450 with our forecast 12% growth from that point over the next 12 months.

**Sectoral exuberance:** Materials, Energy and Financials are now the cheapest of the set. There are few big bargains outside of these sectors.

**Summary:** Although the news of the week was dominated by the political wrangling in Europe, the United States continued to print some good economic data - to the extent that JP Morgan Chase has lifted its Q4 GDP forecast to an annualised 3%. Given that the majority of strategists were clamouring for a double-dip recession only a few months ago, this forecast revision is a major and impressive statement.

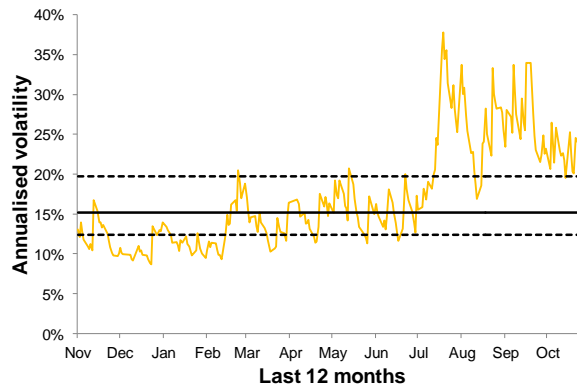
All data are sourced from Thomson Reuters Datastream.

Woodhall Investment Research Pty Ltd (ABN 17 141 486 160)

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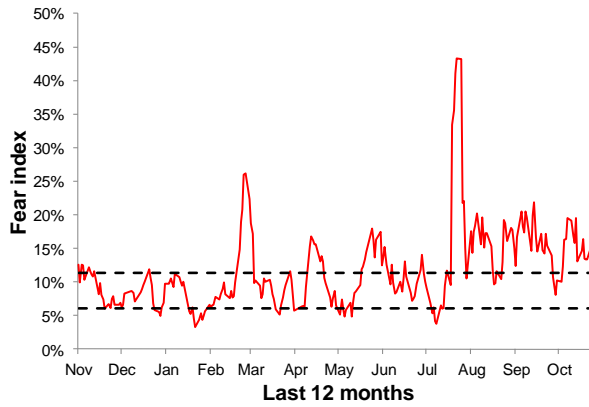
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**Chart 1: Daily volatility**



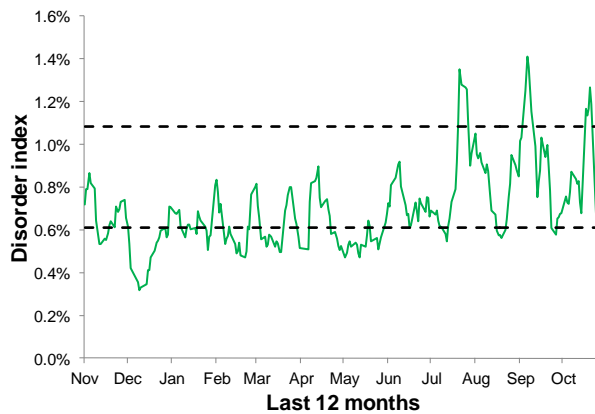
Notes: The solid black line denotes the current average volatility since January 2010; the lower dotted line denotes the average volatility pre GFC; the upper dotted line denotes average volatility during the GFC.

**Chart 2: The fear index**



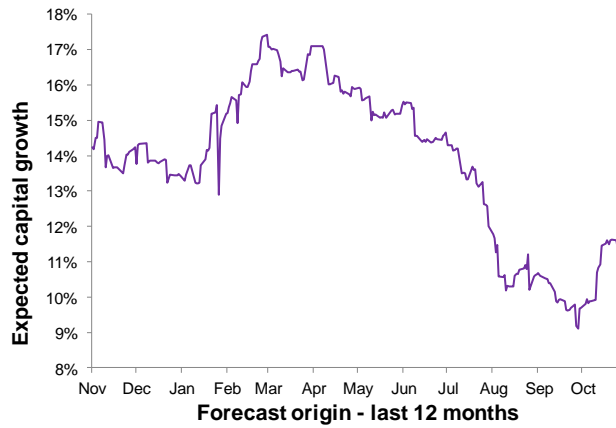
Notes: The two dotted lines denote the range where fear resided pre-GFC for two thirds of the time

**Chart 3: The disorder index**



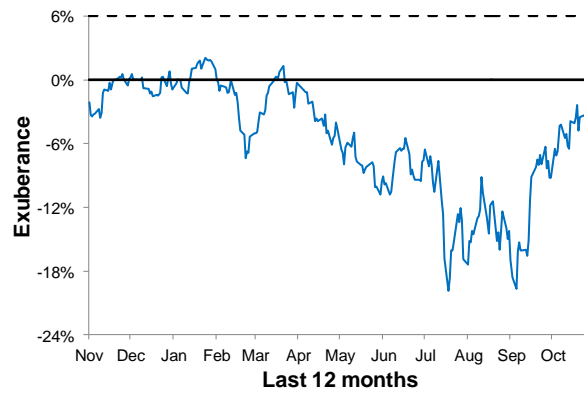
Notes: The two dotted lines denote the range where disorder resided pre-GFC for two thirds of the time.

**Chart 4: Forecasts of capital growth**



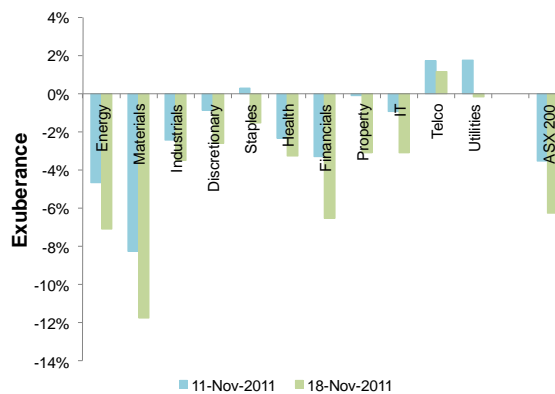
Note: These forecasts are updated daily for the following 12 months. Dividends should also be taken into account when assessing possible performance.

**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.