Perpetual

RIDE THE WAVES, NOT THE TIDE

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Over the next few years investors are less likely to get a free ride from macroeconomic policies and need to look more closely at individual investments. Here's why…

There are undoubtedly times when the "tides in the affairs of men" are running in your favour. You could argue the long credit-fuelled boom leading up to the 2007 GFC was one of those times. The sharemarket recovery over the past four years was another, based as it was on big Central Bank manoeuvres – low to zero interest rates and massive Quantitative Easing policies.

However, we are now entering a period when investors will get less change out of a rising tide than they will from picking the right wave (to mix a monetary/maritime metaphor).

Perhaps blinded by the strength of the past four years, global investors are still expecting Earnings Per Share (EPS) growth in the high single digits. EPS is a crucial measure because, after all, we buy into companies on the basis of the income they generate from their activities.

Interestingly, investors often start the year overly optimistic on the EPS outlook - and I think 2016 will make this the case in 36 of the past 40 years. I find it hard to see global shares generating the forecast +8% EPS growth next year.

That has two clear implications. Firstly, there'll be no rising tide lifting every boat.

Secondly, the ability to pick the right waves (stocks, bonds and property) will become more important. History tells us that there are always individual companies that have the management skills, market positioning and business strategy to perform well even in the face of a weak economy.

The other good news is that when the tides are against you, you can actually buy those companies at prices that make good long-term returns a little easier to achieve.