



# Fisher Funds

## Investor Education Centre

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### Simon says stand still and analyse the full picture

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Remember the childhood game Simon says? This is a game where one player takes the role of Simon and issues instructions to other players (usually physical actions like 'jump up and down'), which should only be followed if prefaced with the phrase "Simon says". The game requires concentration because it is easy for players to focus on the instructions and forget to listen out for the "Simon says".

Market participants could do with an afternoon playing Simon says.

That way they'd learn to stop and think before reacting to every 'instruction' or signal that hits the market every day. There are some things that markets should react to and there are others that it shouldn't.

There has been an enormous news flow since the beginning of the year, and markets have immediately reacted, with daily market movements of 1% or more becoming commonplace. The market has felt volatile, but actually if you look at markets on a slightly longer timescale, say the past three or six months, the market trend has been fairly smooth, and it has been generally positive in direction. Wall St has gained around 3% so far this calendar year, in spite of European debt crises, concerns about China's growth rate, Japan's triple disaster, Libya and Portugal's financial woes. Markets certainly fell as each piece of negative news was released, but investors have clearly been in "buy the dips" mode because negative reactions have been short-lived. Even the Japanese share market has recovered half of the loss that occurred immediately after the earthquake and tsunami.

Perhaps the market's longer-term resilience to bad news can be explained by the fact that we've lived through the worst bad news in the form of the global financial crisis and nothing that hits us now can be as bad as that.

Or perhaps it is that investors are realising that irrespective of the magnitude of the event, it will not be enough to bring the world to its knees.

It has been interesting that after each negative event of late, commentators have quickly published opinions and estimates of how big the financial impact will be on global growth. After the Libyan unrest, analysts quickly surmised that while there was an immediate spike in the oil price, Libya only produces 1.1 million barrels a day, so it won't have a lasting impact on the oil price.

Similarly with the Japanese disaster, analysts quickly noted that Japan's GDP might be impacted by 1-2%, an impact that could relatively easily be absorbed by the global community. Indeed, with the rebuild required in Japan, some pointed to a silver lining in the economic and government reform that might be precipitated by the earthquake.

I've seen long-term charts of share markets that highlight the markets' reactions to significant events. These reactions often appear as the tiniest blips on otherwise upward trending charts – perhaps markets do know how to stop and think before reacting? They just forget every now and then, just like players in Simon says. In a fast, noisy game, it is easy to react too soon, and lose.

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