

# Boom or bust goes the economic clock

- ⇒ The economy moves in cycles that can be broadly defined
- ⇒ An economic clock provides a quick guide to where we are in the cycle
- ⇒ With our rising interest rates and falling share prices, we are at around one o'clock
- ⇒ Understanding the cycles can assist with dealing when to invest in different assets

Every day we take in vast amounts of information although retain only a small proportion of it. This retention issue also applies to how much we absorb about the share market and shares in general.

We all know that there are times when it is more sensible to buy shares than others - but when is this time? One way of assessing where we are with regard to the economy is to monitor the 'economic clock'.

Several years ago (see 'Then' diagram) Australia was experiencing falling interest rates and a rising share market. Depicted on the clock, the country was at seven o'clock.

It is worth looking at what time the economic clock is at now with regard to Australia. This is the situation as most would find it:

- ♂ Australia has had an extended period of rising share prices;
- ♂ Australia has had an extended period of rising real estate prices;
- ♂♂ Commodity prices have been rising;
- ♂♂ Money is relatively easy to access; and
- ♂♂ We are now in a period of rising interest rates

Many commentators now believe that we are somewhere around one o'clock on the economic clock as interest rates are rising but we have not, as yet, experienced falling share prices, falling commodity prices and falling real estate prices. Of course, timing is everything but we can at least conclude that we are no longer at seven o'clock, nine o'clock or eleven o'clock.

The economic clock illustrates how the economy moves in cycles. It also provides an indication on when we should err on the side of being 'risk seeking' and when we should err on the side of being 'risk averse' or 'risk avoiding'.

It would appear that we are now more clearly on the right hand side of the clock face rather than on the left hand side.

Over the next year share fund managers will expend a great deal of time and effort looking for opportunities to divest existing holdings and in addition profit from falling share prices.

This does not mean that there will be no good buying opportunities, since as we know there are always opportunities in the market; it merely suggests that there will be fewer good buying opportunities and more profits to be made selling.



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