The hangover – investing in a deleveraging world

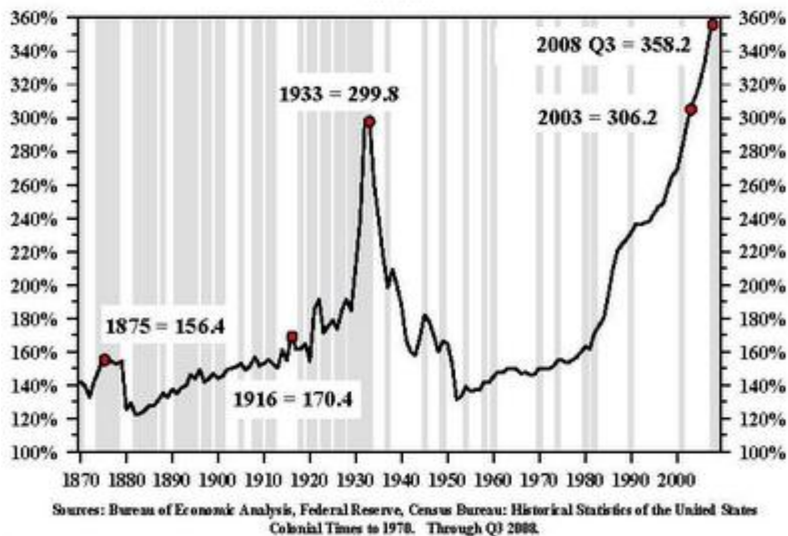
15 November 2011

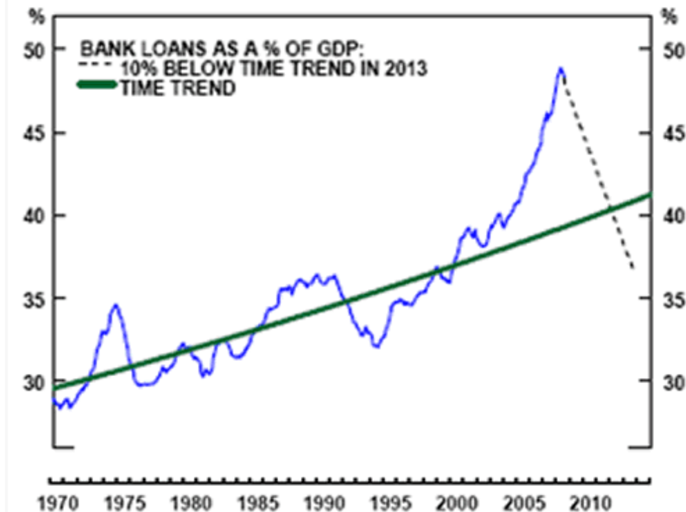
Australian Unity
WINGATE ASSET MANAGEMENT

Deleveraging has just commenced

Australian Unity
WINGATE ASSET MANAGEMENT

The global leverage party is over… now for the hangover





Investors have short memories, deleveraging is not rare

Deleveraging happens (and hurts)

Australian Unity
WINGATE ASSET MANAGEMENT

Finnish financial crisis
1991-1998 (7 years)
House prices fall 50%

Malaysian financial crisis
1998 - 2008 (10 years)
Stock market falls 65%

Mexican sovereign default
1982 - 1992 (10 years)
Inflation touches 130%

Spanish inflation crisis
1976-1980 (4 years)
50% of banks nationalised

How do we get out of this?

Three ways to stop the trend:

- 1. **Pay down** debt;
- 2. **Inflate** the debt away; or
- 3. **Default**
  - If debt/GDP ratio is >100% this may be the only option remaining
  - Not fun – bad for everyone (workers, governments, retirees)
  - But it does allow a reset

Where should you invest?

There are very limited investment options:

- Bonds
  - Look at Greek yields
  - Anyone with credibility already pays very low rates
  - Australia: probably on the way to low rates as well
  - Returns are likely to be inflated away over time
- Cash
  - Will likely be penalised from inflation
- Property
  - A dirty word in most countries
  - Needs leverage to appreciate in value
  - No appetite exists to provide or take leverage

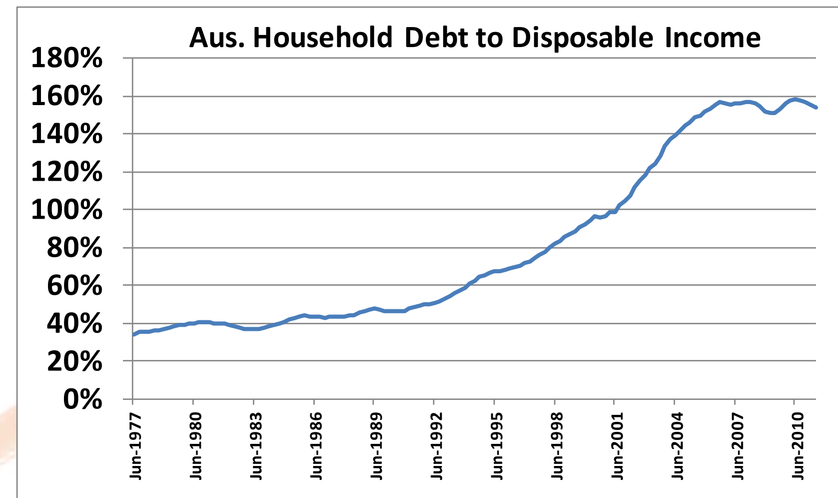
What about Australia?

Australian Unity
WINGATE ASSET MANAGEMENT

Relatively uncompetitive economy outside of mining

- Will face full effects of deleveraging if China wobbles
- Reflected in local share market:
  - Gone nowhere in 6 years despite "once in a generation boom"

- No diversity in Australian equities market:
  - Mining: susceptible to Chinese overinvestment
  - Banking: susceptible to overvalued property



Source: Reserve Bank of Australia