

The many factors driving share market values

The Australian stock market has been quietly making steady gains since the 'crash of 2008'. Unlike the falls, which made a bang with loud headlines in the news, the recovery has seen very little media attention. However, despite the lack of media hype, the market is up 17% since its low on 17 March 2008 - quite a nice gain by anyone's standards!

Those who cast away their fears and bought when the market looked its worst are now reaping the rewards. So what could they have seen that others didn't?

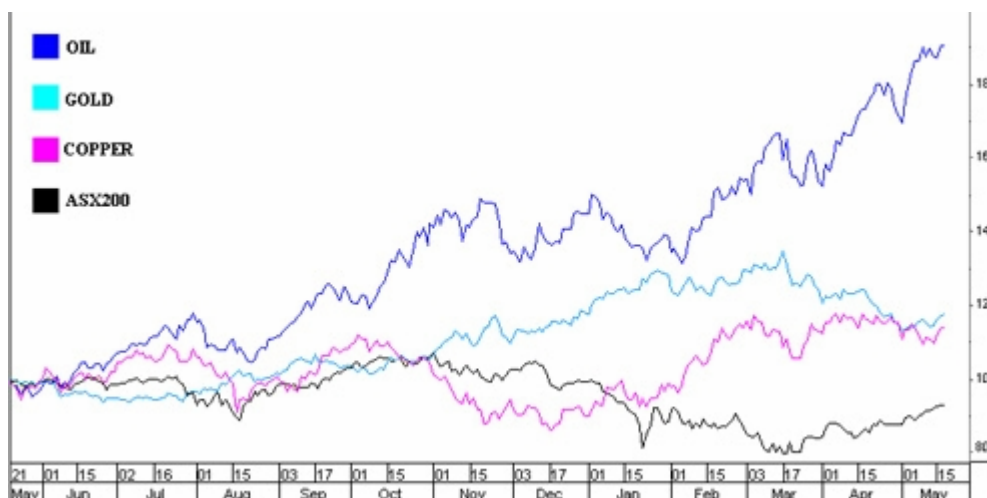
As we all know the credit crunch caused massive falls in financial stocks. This in turn sparked concerns that most western economies, especially the US, would start to show negative growth - leading to lower corporate profits, higher unemployment and falling share prices.

However, in the background to all the panic there were some asset classes which did not 'crash' but actually outperformed.

The chart below illustrates the return of the ASX200 versus the return for oil, gold, and copper for the last year. As the share market went through its turmoil through the New Year, the price of gold, copper, and oil actually rose. From December 31 2007 to March 17 2008 the returns were as follows:

- Gold +18.5%
- Copper +18%
- Crude Oil +6.5%
- ASX200 -19.5%

Commodities outpacing the stock market



Did the continued strength of commodities ultimately save our market?

Source: wise-owl.com, Bloomberg



Those looking through different coloured spectacles might have noticed the significance of this negative correlation. If the credit crunch were to slow the US economy and the rest of the world (particularly China) was doomed to follow, then commodities would surely suffer?

There is no doubt a severe recession in the US would have a profound impact, but maybe the US/China paradigm shift is more advanced than people realise. Perhaps the continued strength of the Chinese industrialisation has actually kept the US above water.

It seems that this bull market puts more emphasis on the continued growth of China. So, what lessons should investors take? It does pay to look at all sources of information before making any investment decisions. After all, an informed investor is much more likely to be a successful investor.

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