

## PHAROS Investment Committee Investment Market Update

### Greek financial crisis: 7 July 2015

- As British Prime Minister Harold Wilson once famously said, “A week is a long time in politics”. The Greek referendum has come and gone and the Greeks have confounded most of the pundits and the opinion polls by voting no 62% to 38%;
- We were wrong in our assessment that they might on balance vote yes, but we appear to have been right in recommending precautions against volatility;
- In the medium to longer term, the very low level of interest rates worldwide provides underpinning for asset prices in equity and real estate markets, not least because the pursuit of yield leads investors away from cash and fixed interest;
- In the shorter run there is every prospect of continued volatility in equity markets, so a build-up of some cash in portfolios, while offering record low yields, provides an opportunity to take longer term advantage of weaker equity prices in the event of a short run sell off;
- Caution and patience should be the watchwords;
- The European powers, meanwhile, need to prevent chaos in Greece and/or an alignment of Greece with Russia;
- The eloquent game theorist Varoufakis has resigned as Greek Finance Minister, so the European powers should find it less irritating to negotiate with their Greek counterparts;
- Angela Merkel and the other leaders of the Eurozone and Christine Lagarde of the IMF may not have blinked yet but they may soon do so, as failing to support Greece will be against their own long term interest. Maybe the Greek voters understood this when they mostly voted no last Sunday;
- The development of the crisis is still a day to day proposition and we see no need to lessen our precautionary stance;
- The PIC will review this continually and we have a PHAROS Economic and Financial Markets Forum on Thursday which will focus on the Eurozone crisis but it will also review the implications of developments in the Chinese securities markets over the course of the last week;
- Following this we expect to publish a new Investment Market and Portfolio Update next Monday;
- Pending this review the decrease in allocation to Australian and International equities via a switch into lower volatility alternative equities, made at the beginning of June, remains appropriate in our view;
- It would also be appropriate to withhold investing new cash in equities at this stage and instead accumulate and await investment at what we expect will be better prices in the months ahead;
- An effective reduction in equity exposure is precautionary and it also provides an opportunity to build up the strategic cash with a view to reinvesting in the event of a significant sell-off. While such a sell off may lead to prices falling as much as 10% to 15% in the short term, we expect that the medium to longer run equities will resume their growth path and add more value than either cash or fixed interest.

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