History's guide to how this bull market will end

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Cyclical bull markets in Australian shares since WW2

Cyclical share bull market, All Ords	Prior bear market % fall	Total bull market % gain	Duration in months
Dec 1952-Sep 60	-34	146	93
Nov 60-Feb 64	-23	42	39
Jun 65-Jan 70	-20	120	55
Nov 71-Jan 73	-39	57	14
Sep 74-Aug 76	-59	101	23
Nov 76-Nov 80	-23	173	48
Jul 82-Sep 87	-41	421	62
Nov 87-Aug 89	-50	55	21
Jan 91-Feb 94	-32	94	37
Feb 95-Mar 02	-22	89	85
Mar 03-Nov 07	-22	156	56
Mar 09-Apr 11	-55	63	25
Avg from 1950	-35	126	47
Sep 2011-?	-22	51?	43?

Source: ASX, Bloomberg, AMP Capital

Cyclical bull markets. *Source:* TheAustralian

Over the long term, Australian shares have rewarded investors with an attractive return averaging 7 per cent a year, after inflation and before tax. But the ride has been a bumpy one: the sharemarket has swung between times of plenty and times of negative returns.

Many investors wish they could pocket the splendid long-term average returns shares provide without, from time to time, having to put up with the wide ups and downs of the investment cycle. Alas, the two features of the sharemarket generally come as a package deal: average returns are high because the shorter-term swings in returns are wide.

Investors can improve the mix of return and volatility by anticipating major turning points in sharemarkets — taking some profits near the peak, or buying additional shares while markets are bearish and shares are cheap. However, "timing the market" is never easy. Can history help us answer the important question of how long bull markets in shares can be expected to last?

Shane Oliver of AMP Capital Investors has identified 14 significant cycles in Australian shares since the late 1940s. The bull markets in Australian shares have, on average, delivered gains of 126 per cent and lasted for 47 months.

On his assessment, the current bull market commenced in September 2011; by late April, average share prices had risen by 51 per cent and the bull market had run for 43 months.

The conclusion he draws — and I agree with — is: "Typically, the bull phase lasts three to five years. But it varies depending on how quickly recovery proceeds, inflation rises and extremes of overvaluation and investor euphoria appear … while corrections should be anticipated … we appear to be a long way from the peak in the investment cycle."

When I first looked at his summary table, reproduced with today's column, two thoughts came quickly to mind. The first was: "OMG, I've been around for all of those 14 cycles." Second, I wanted to draw on my memory and study of past cycles to work out whether bull markets in Australian shares are generally ended by local or international influences.

Of course, it turns out that both can be important, but:

● The demise of bull markets in Australian shares generally follows collapses in overseas markets. Certainly, that was the experience in the bull markets ending in 1973 (the OPEC-led increases in the oil price), 1987 (Black Monday in the US), and 2007 (global financial crisis).

● And the time gaps are short. In 1987 our bull market ended within hours of the sharp reversal in market sentiment in the US, while in 2007 the sharemarket peaks in the US and Australia were only a few weeks apart.

● However, the long bull market in Australia in the years to 1960 was ended by local factors, including the credit squeeze introduced after our economy had already turned down. And in 1970, when the cyclical upswing in shares that had begun in 1965 ran out of puff, it reflected the unwinding of excesses in our market.

● Sometimes, both local and foreign influences play a role. Here and abroad, share prices fell sharply in 1994 during a global sell-off in bonds. Bond yields in Australia rose more than in other countries — largely because the majority of investors believed, incorrectly, that Australian inflation was about to surge — and our shares fell sharply.

● Domestic influences always have a big influence on the extent of the gains that come with the bull market. For example, in Australia, the boom ending in 1987 was supercharged by the surge in credit that accompanied financial deregulation. And the bull market that began in 2009 was milder in Australia than in the US, because our exchange rate strengthened and profits recovery was mild.

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