

Bearish investors warned against buying the dip

Cameron Micallef · April 14 2020



Investors have taken advantage of falling equity prices, with trade volumes increasing, although they have been warned not to jump straight back in.

According to BetaShares, ETFs grew exponentially in March, even as funds under management (FUM) declined due to equity prices falling.

BetaShares CEO Alex Vynokur said: “During this challenging period, the extraordinary rise in ETF trading volumes indicates that Australian investors are increasingly turning to ETFs to express their investment views, suggesting that the liquidity of ETFs is proving attractive amidst some of the most intense volatility in recent history.”

However, the research also found that most investors are pessimistic about the future, with most transactions going in bear market funds.

“Unsurprisingly, given the slump in sharemarkets, the three top-performing funds for March were the BetaShares Bear Suite, which all rose sharply, up between 17 per cent and 33 per cent,” Mr Vynokur said.

Founder and director of Bourse Communication Rod North agrees with these bearish investors, highlighting markets could further fall before recovering.

“The Aussie sharemarket is in the middle of a brief bear market rally mirroring the gains made back in October 2008 before the GFC pulled shares down a further 25 per cent before we finally reached the bottom of the market in March 2009.

“In our case, and in the context of today, expect that bottom and buy signal to be reached sometime by yearend 2020 or early 2021.

Mr North advised long-term investors: “Don’t be lured into the ‘bear market trap’ and perceived honey pot of gains to be had just because the market has risen like a soufflé in the past few weeks.”

Many top 200 Australian companies will not be able to maintain their dividends and may have to drop them in the light of the coronavirus-induced slump in earnings. Earnings is always the key driver of the sharemarket sending it to higher levels and nobody wants to see companies cut their dividends, but this becomes inevitable when earnings totally disappear even for a short period.

The Australian sharemarket over recent days may have technically returned to bull market territory temporarily, Mr North said, but he sees the uptick as a series of “dead cat” market-induced bounces being a precursor of much deeper lows ahead of us as the full impact of a declining and systemic economy heading into a COVID-19-induced recession fully kicks in and delivers more bad news and company profit declines in the months ahead.

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