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Investors hurt by GFC hangover

By: Jamie Gray – November 4, 2013

Investors around the world are said to be limiting growth because of being risk averse.

Five years after the global financial crisis, risk aversion remains a dominant feature of the financial markets, with investors in New Zealand and the world still tending to be "overweight" in cash or short-term fixed interest securities, investment experts say.

A common theme raised by speakers at a recent CFA conference in Melbourne was that companies, like investors, were loath to take on risk, which was acting to hobble economic growth.

Fund managers voiced fears investors who took an overly conservative approach would not achieve the growth needed for retirement.

In New Zealand, the trend towards greater bank deposits accelerated in the wake of the crisis. In 1998, about $38 billion in household savings was tied up in bank deposits - a number that has swelled to $117 billion today. Investment in shares has also grown, but not nearly at the same pace - from $33 billion to $61 billion.

The recent string of mostly successful sharemarket floats has shown that Kiwi investors are looking more favourably towards risk, but the numbers suggest that cash is still king.

Across the Tasman, Australia's compulsory retirement system is worth A$2 trillion ($2.28 trillion) - but the proportion of that money sitting in cash is at historically high levels, thanks to lingering effects of the crisis.

Reserve Bank of Australia deputy governor Philip Lowe said the unwillingness of companies to invest in the non-mining sector was the biggest "structural headwind" facing the Australian economy - and was far more important than any changes the RBA might make to its cash rate.

"It is possible that one of the really enduring legacies of the crisis is that businesses just decide that they do not want to take on risk, or that they apply a high premium to taking risk," he told the conference. 'If that's the case, then we could all get stuck in a low-growth world and that's obviously bad for everybody," he said.

Its a similar story in the United States, where non-housing investment is still nowhere near its 2007 peak. William Poole, a senior fellow of the Cato Institute and a former president of the Federal Reserve Bank of St Louis, said the corporate sector there continued to hold back, despite being in much better shape.

"We have companies that have huge amounts of cash on their balance sheets," he said. "We have banks that are stuffed with cash, so the issue is not the availability of finance - the issue is with the entrepreneurs who have not been prepared to take the risks," Poole said in an interview.

Paul Smith, CFA's Hong Kong-based managing director for the Asia Pacific, said the crisis had altered the shape of the investment industry globally. The institute's membership is made up of asset managers and financial analysts and Smith said the financial community was still suffering from the reputational damage brought on by the crisis.

"The reality is that we can't escape the general contempt that the public felt for financial services in general - primarily occasioned by the behaviour of the big banks," Smith said in an interview. He said the financial markets were not performing their traditional role of acting as a channel between savings and investment projects.

Too much money was going into fixed income and not enough into equity investment, which was primarily due to the lack of confidence. Jamie Gray attended the CFA Australia Investment Conference in Melbourne courtesy of the CFA Institute.