Otago Daily Times

Investors still risk-averse

Jamie Gray November 1, 2013

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 "over-weight" in cash or short term fixed interest securities, investment experts told a recent CFA conference in Melbourne.

A common theme raised by speakers at the conference was that companies, like investors, were loath to take on risk, which was acting to hobble economic growth throughout much of the western world.

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

In New Zealand, the trend towards greater bank deposits accelerated in the wake of 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 $33b to $61b.

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 whopping A$2 trillion - but the proportion if 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 in the US continued to hold back, despite being in much better shape.

"We have companies that have huge amounts of cash on their balance sheets," he told APNZ. "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 of for the Asia Pacific , said the crisis had completely 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, which he said had not been helped by seemingly endless headlines showing another bank facing a major fine, or another ponzi scheme being uncovered.

"As the tide has gone out for the financial services industry, a lot of these aberrant behaviours have been exposed," Smith said. "I don't see any end to that cycle at the moment and I think it's worrying from that perspective."