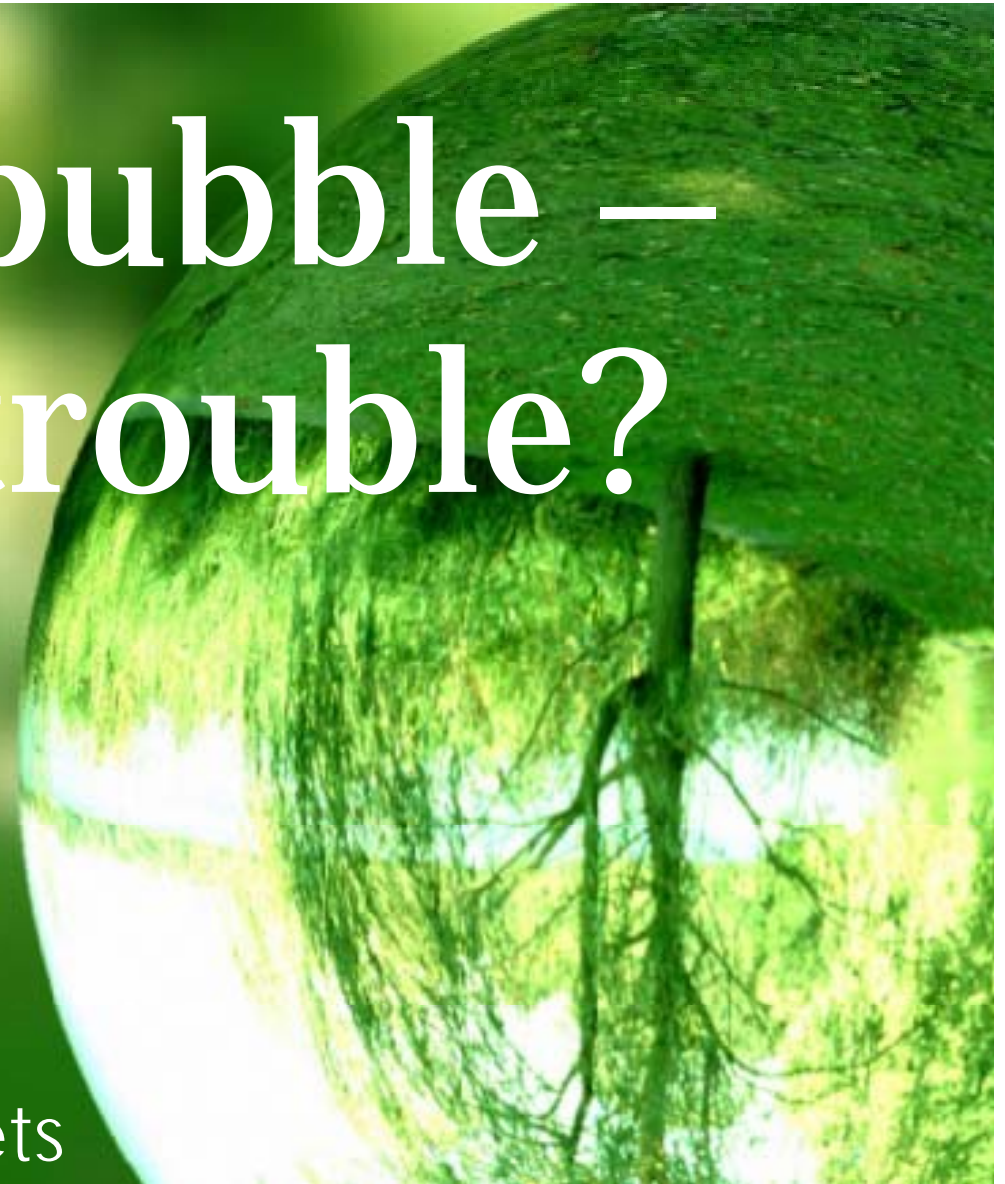


Bubble, bubble – toil and trouble?

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facilitating
debate on the
outlook for the markets





Chris Joye

Managing Director
Rismark International

1. Portfolio Performance: Best Risk-Adjusted Returns Outside of Cash

- Assumes you can access an 'index' of RRE
- Longest possible sample period to compare: commences June 1982
- On risk-adjusted basis, outperformed:
 - Australian equities
 - International equities
 - 10 year government bonds
 - LPTs

Asset-Class Risk and Return (June 1982 to June 2010)

Risk and Return	Aust. Equities Accum.	Global Equities Net Accum.	10yr Govt Bonds	90 Day Bills	Aust. LPTs Accum.	RRE (Net Return)
Arith. Return (%)	13.3%	10.4%	11.7%	8.5%	10.0%	10.8%
Standard Deviation (%)	19.7%	14.7%	8.7%	1.3%	12.8%	3.4%
Sharpe Ratio	0.25	0.13	0.37	0.00	0.12	0.67

Source: Rismark



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1. Portfolio Performance: Genuinely Uncorrelated

- 1987 Crash—Aussie RRE outperformed equities
- 1991 Recession—Aussie RRE outperformed equities
- 2001 Tech Wreck—Aussie RRE outperformed equities
- 2007-09 GFC—Aussie RRE outperformed equities

Correlation Coefficients (June 1982 to June 2010)

	Aust. Equities Accum.	Global Equities	10yr Govt Bonds	90 Day Bills	Aust. LPTs	RRE (Net Return)
Aust. Equities Accum.	1.00					
Global Equities	0.64	1.00				
10yr Govt Bonds	0.01	-0.03	1.00			
90 Day Bills	0.09	0.17	0.24	1.00		
Aust. LPTs	0.68	0.50	0.16	0.09	1.00	
RRE (Net Return)	-0.19	0.05	-0.14	0.03	-0.06	1.00

Source: Rismark



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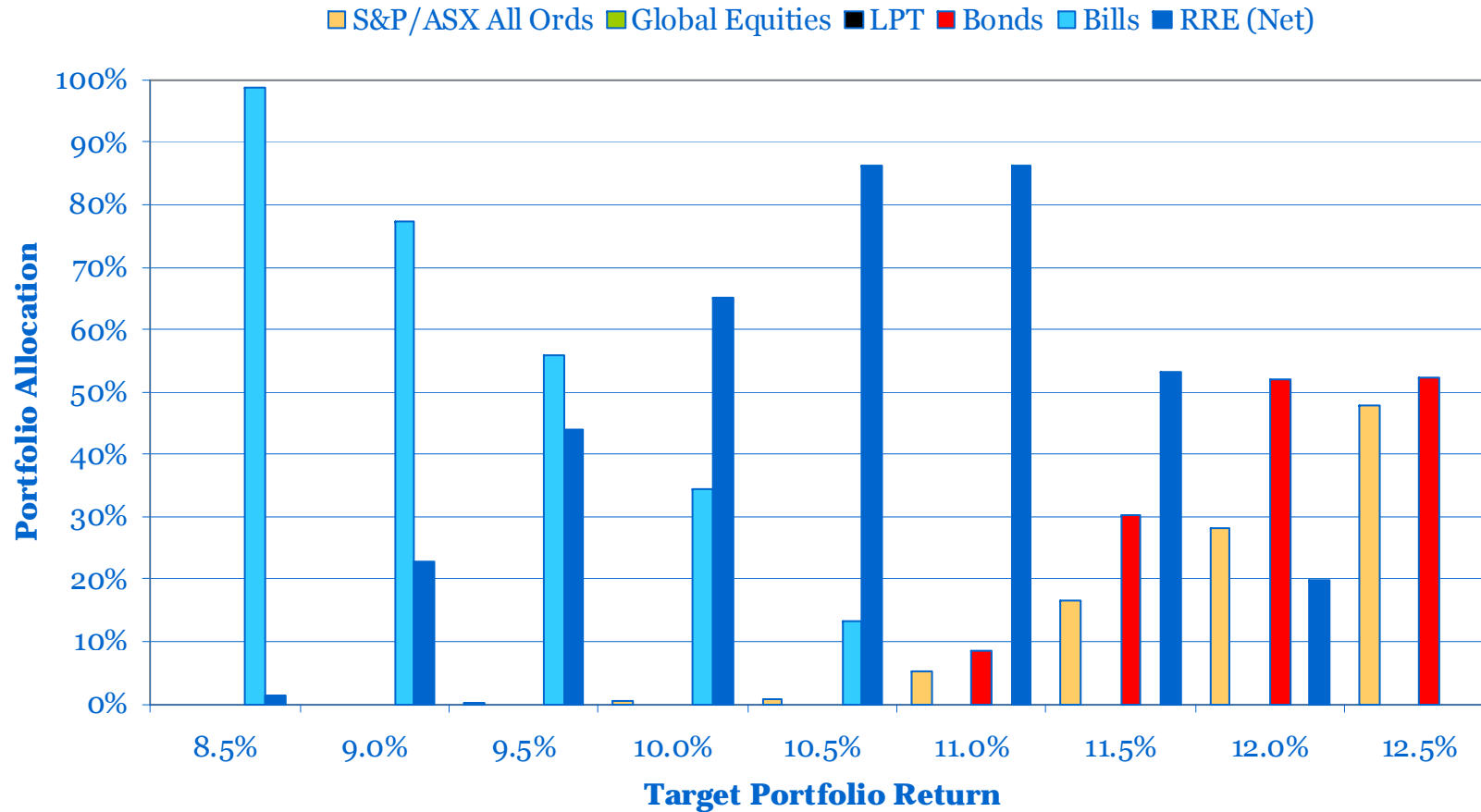
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1. Portfolio Performance: Strong Strategic Asset-Allocation Imperative

Minimum Variance Portfolio Allocations with RRE (Net)



Source: Rismark



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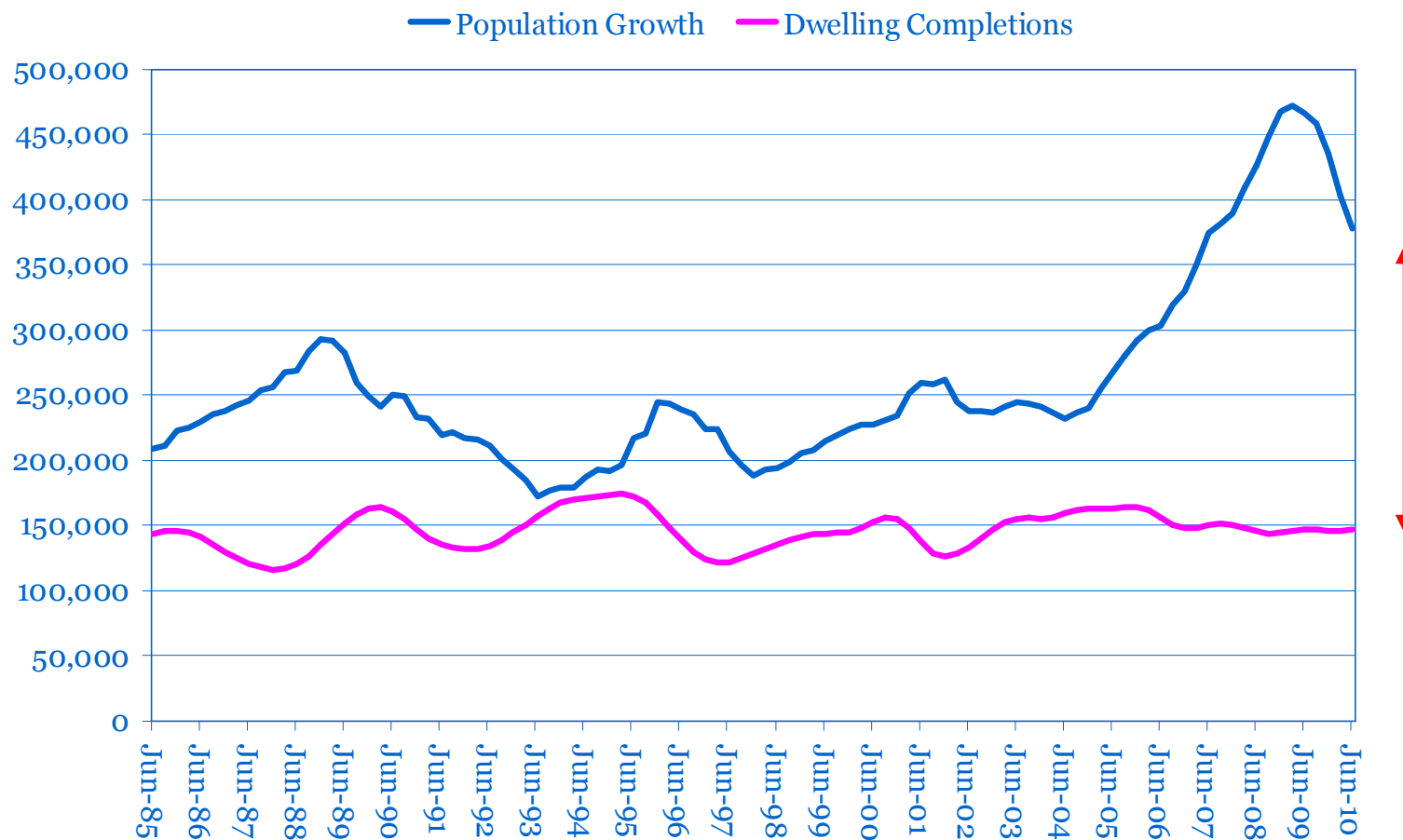
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2. Fundamentals: Underlying Demand vs. Supply

Population Growth vs. Dwelling Completions



Source: Rismark; ANZ



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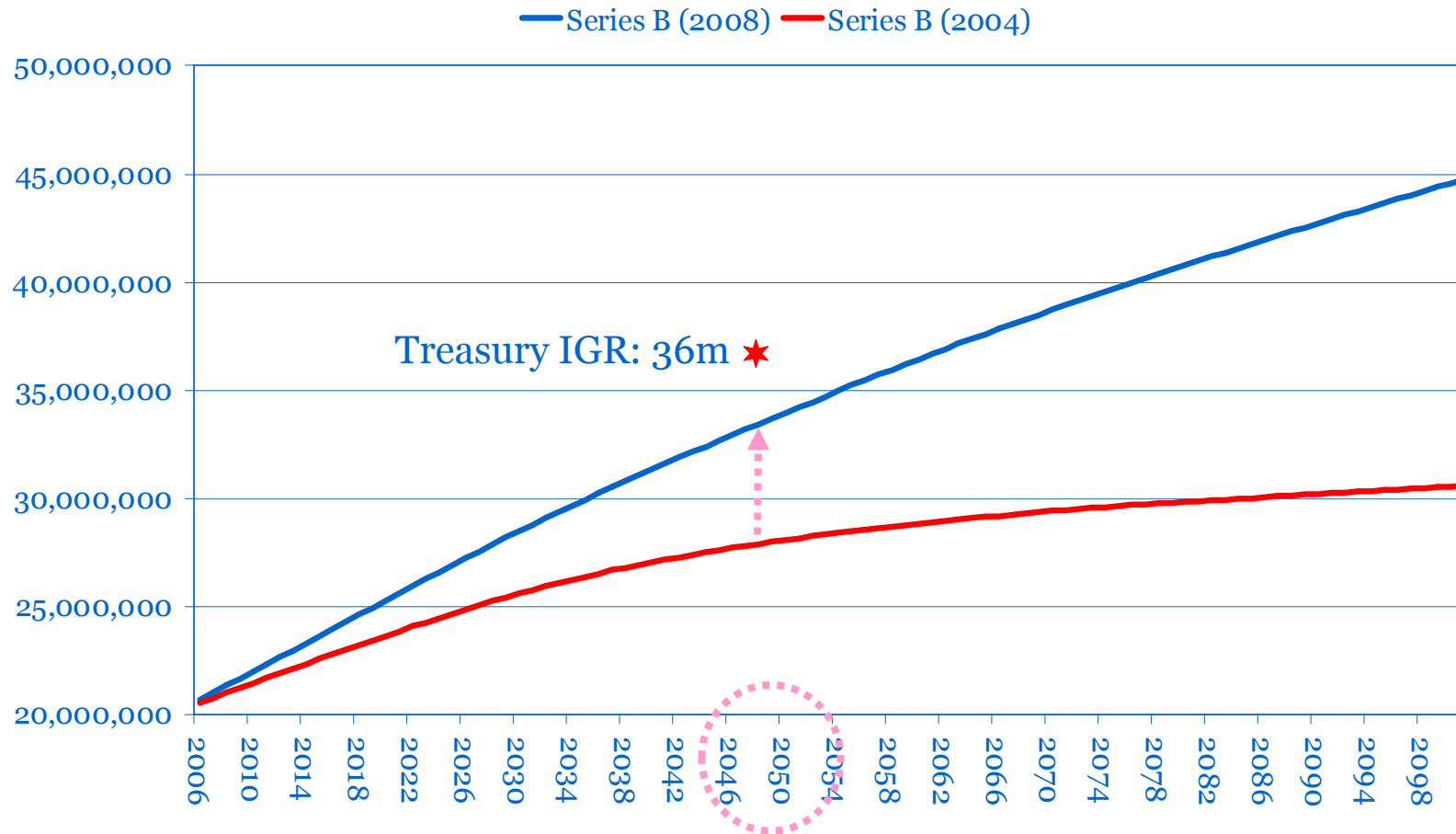
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2. Fundamentals: Population to Increase by 60%

Change in ABS Population Projections



Source: Rismark; ABS



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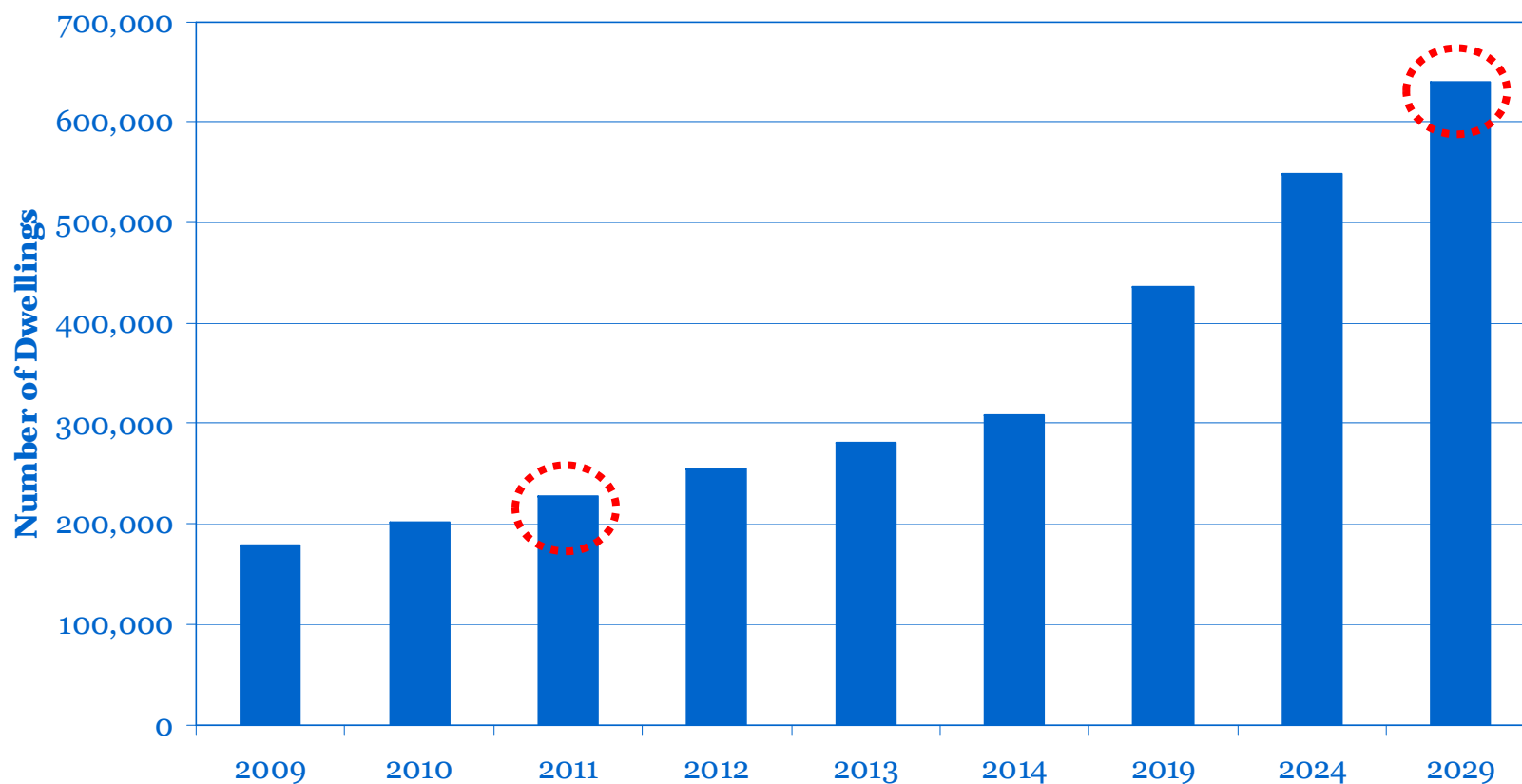
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2. Fundamentals: National Housing Supply Council Shortage Estimates

National Housing Supply Council (2010): Gap between Underlying Housing Demand and Supply



Source: NHSC



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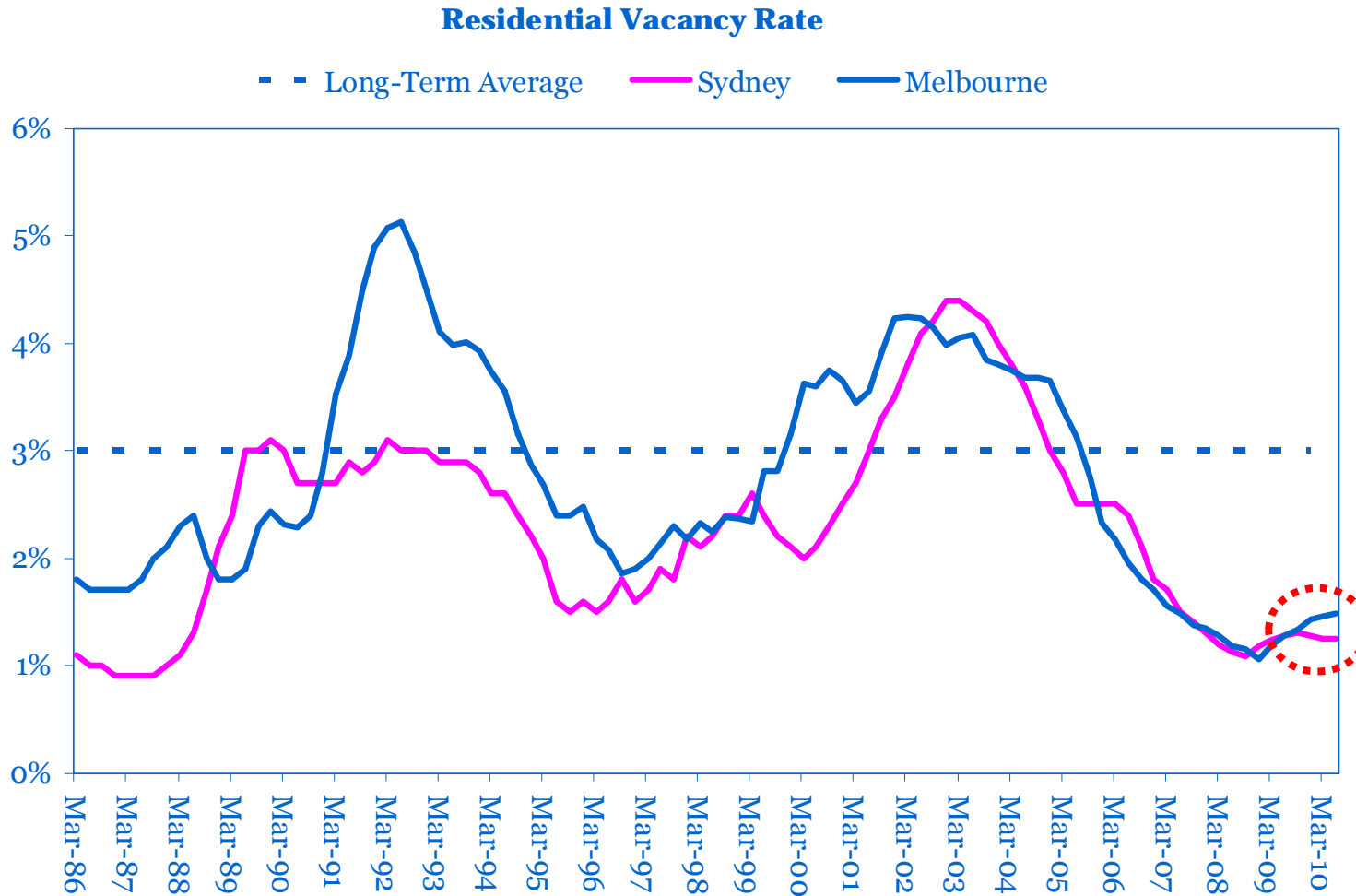


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2. Fundamentals: Rental Vacancy Rates Very Low



Source: REIA, ANZ



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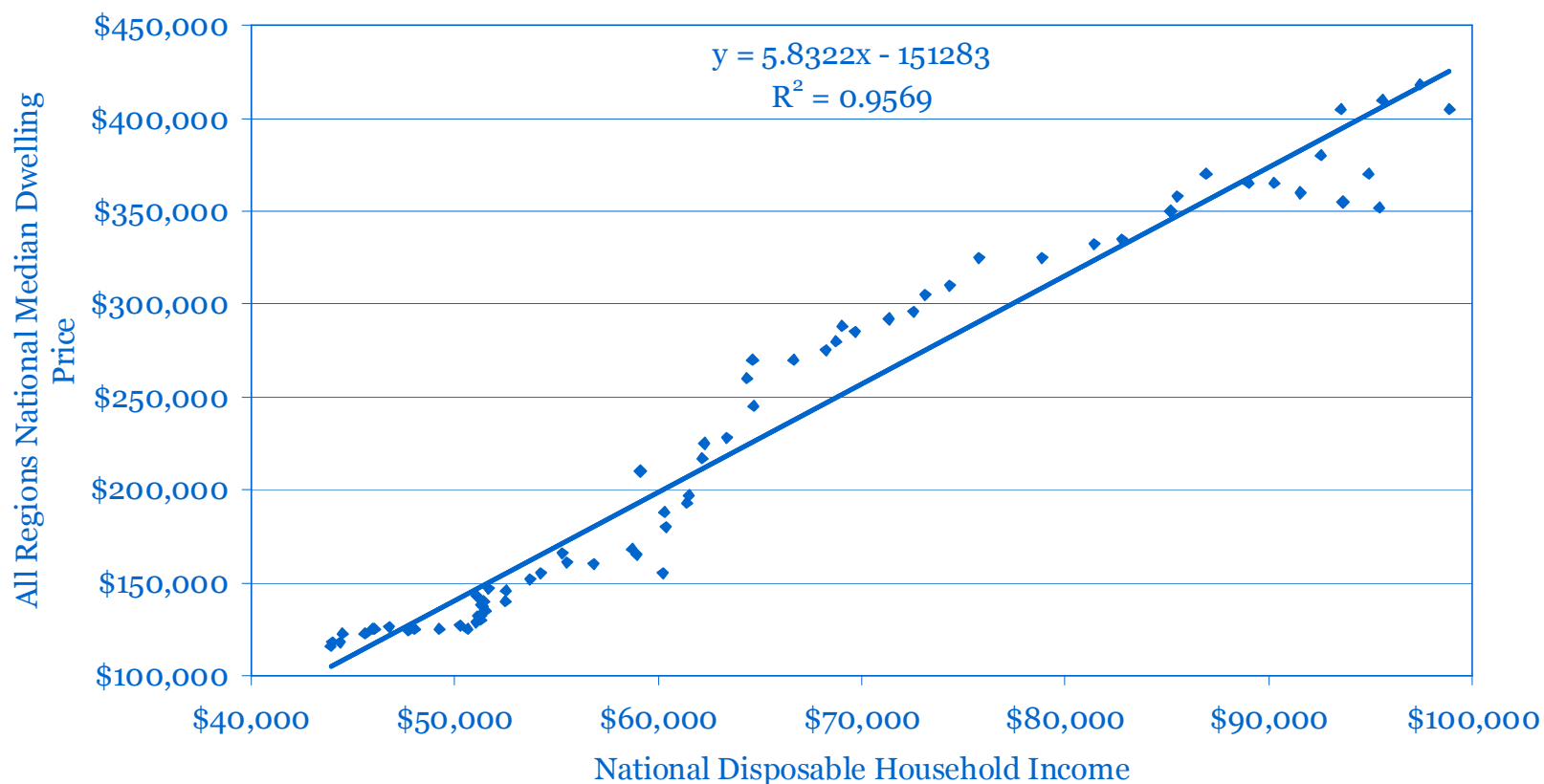
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3. Valuation: Incomes Determine Dwelling Prices

**Relationship between National Median Dwelling Prices and
National Disposable Household Incomes (per household): March 1993 to
September 2010**



Source: Rismark



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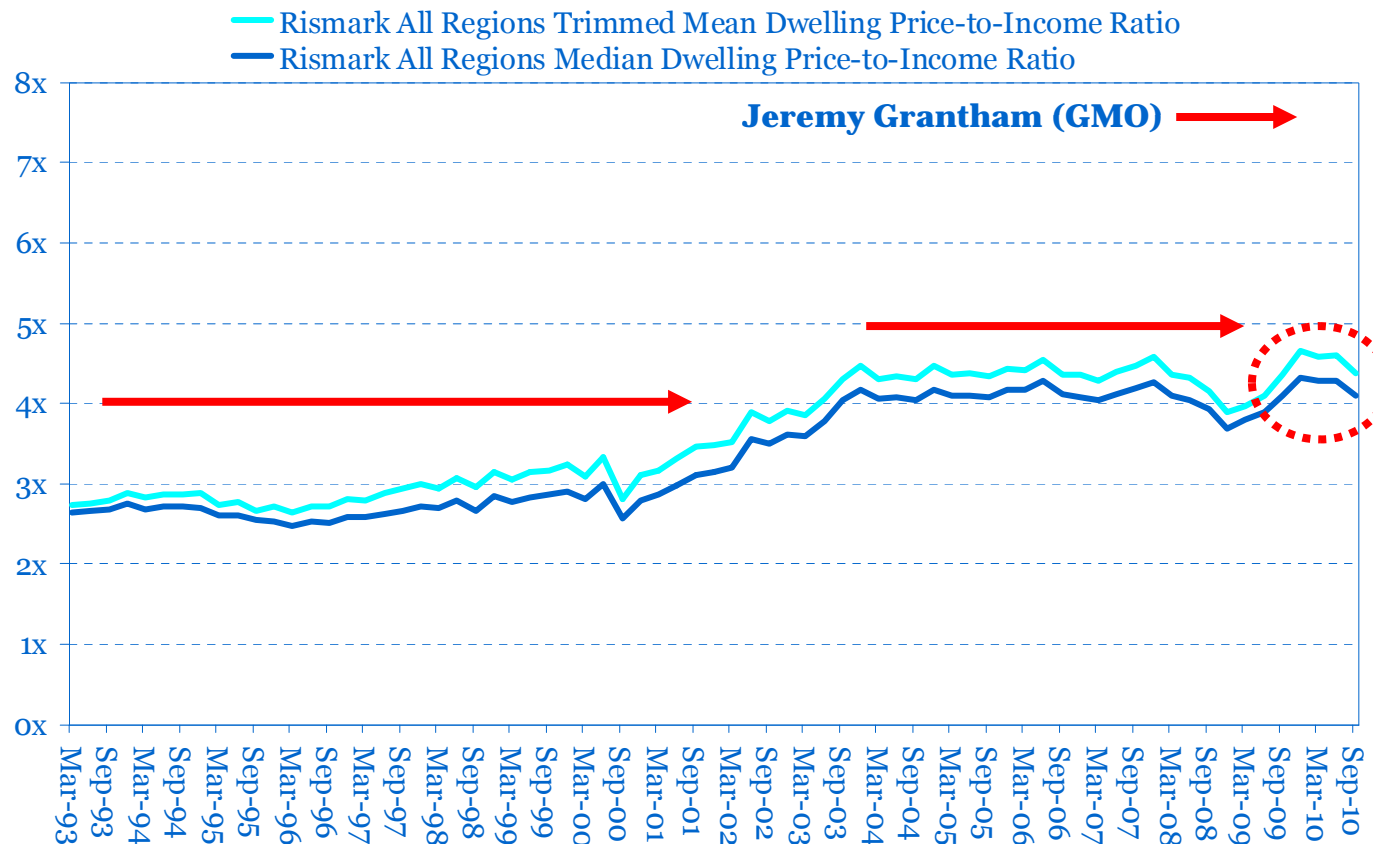


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3. Valuation: Dwelling Price-to-Disposable Income Ratio is Just 4.4x

- RBA: “the ratio of house prices to income is not that different from most other countries”

Rismark Australian All Regions Dwelling Price-to-Disposable Household Income Index



Source: Rismark; ABS; HIA



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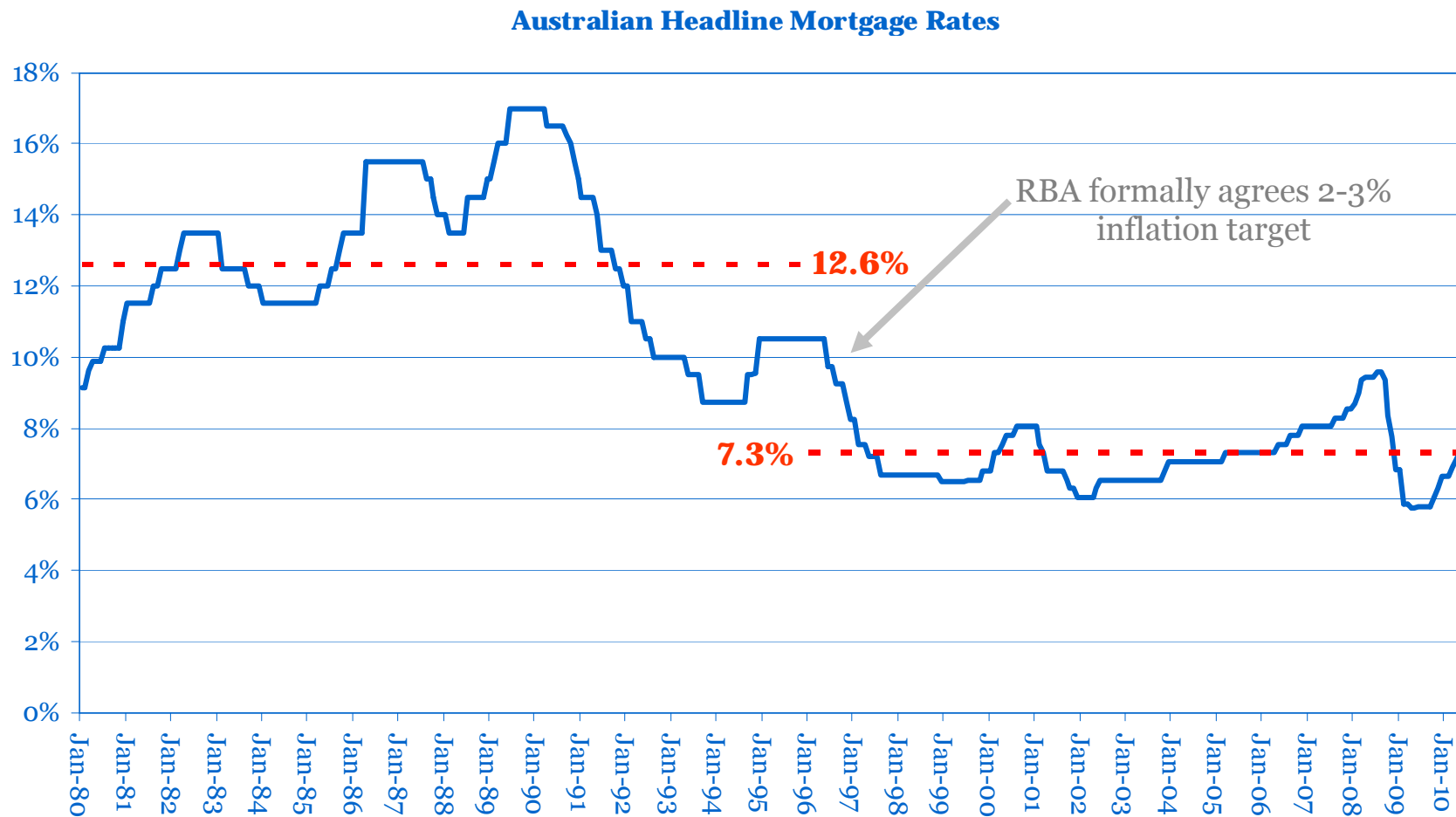


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3. Valuation: Inflation-Targeting Drove Downward Shift in Nominal Rates



Source: Rismark; RBA



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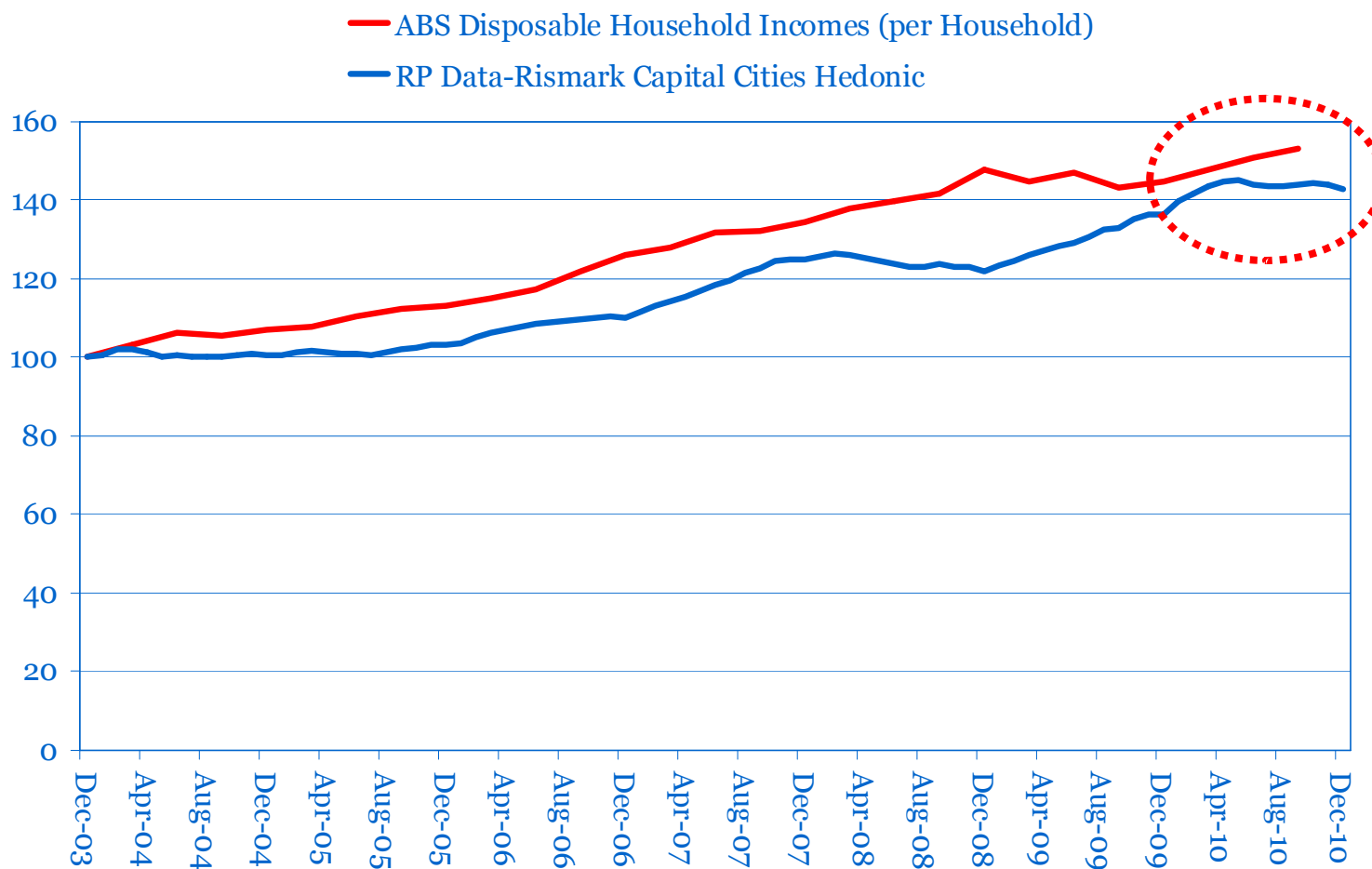
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3. Valuation: Incomes Outpace Prices Since 2003

Disposable Household Incomes vs. Aussie Dwelling Values



Source: RP Data-Rismark



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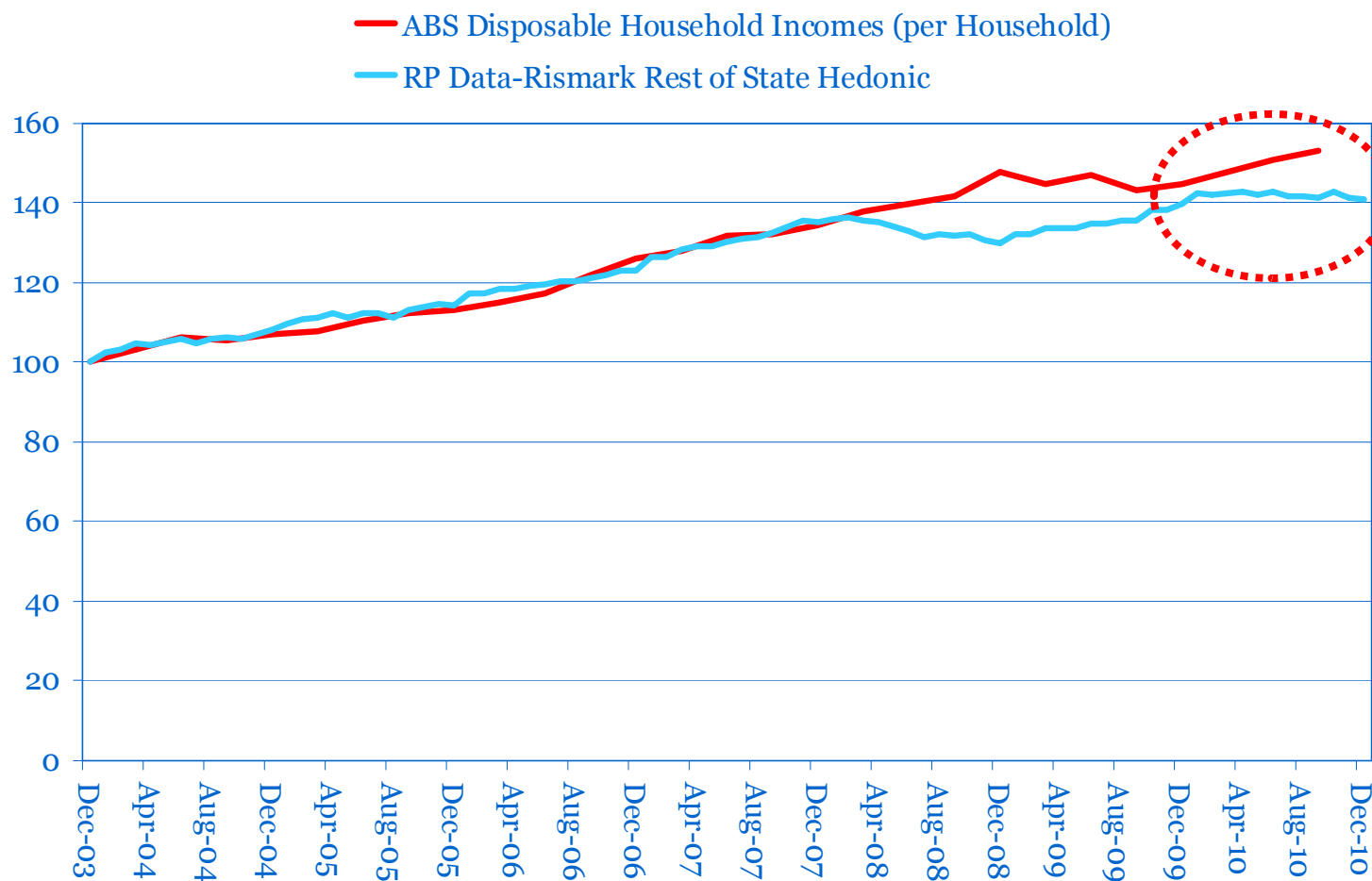
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Disposable Household Incomes vs. Aussie Dwelling Values



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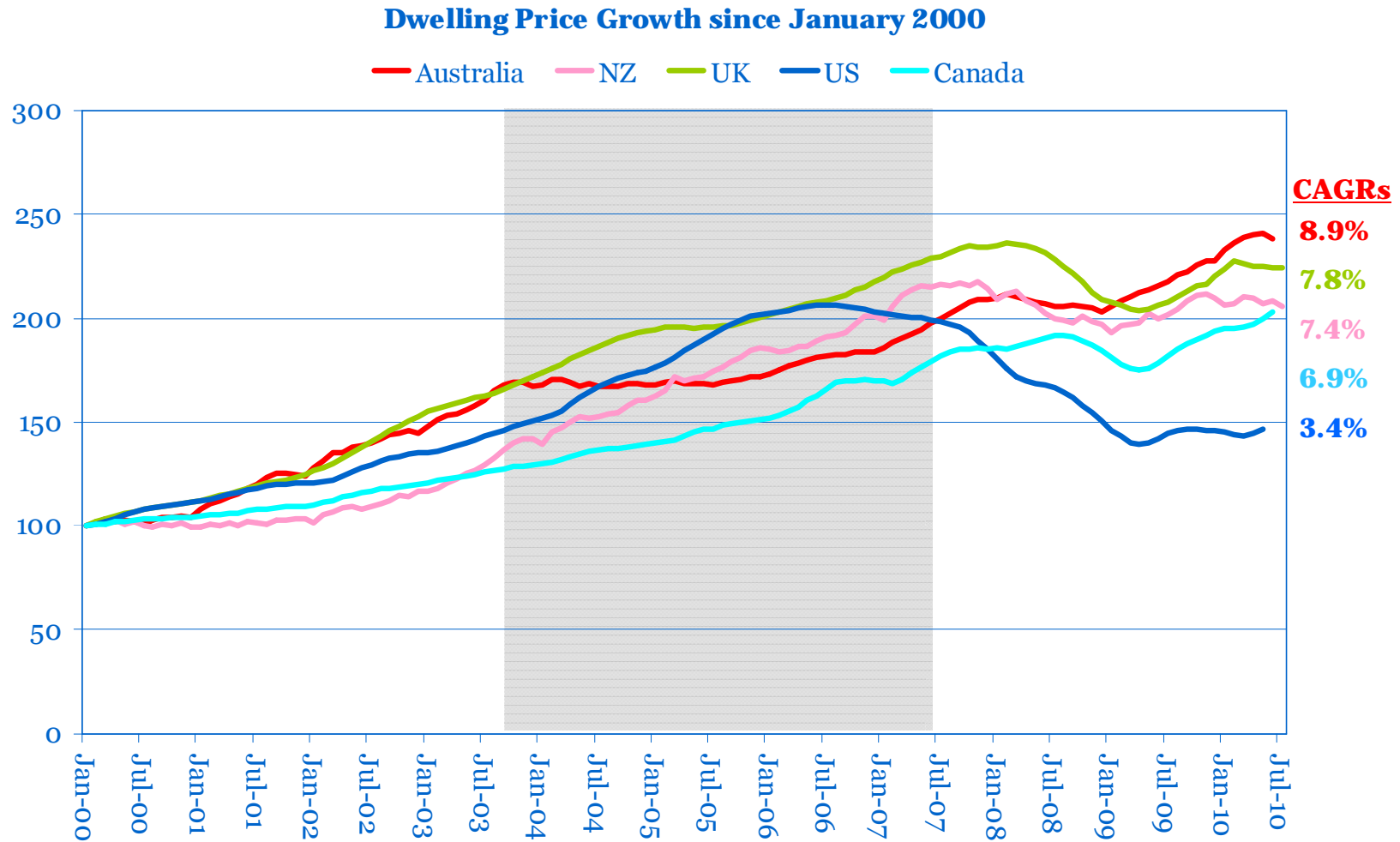


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4. Comparisons: Australia Underperformed Between 2003 and 2006



Source: RP Data-Rismark; NZ REI; Case-Shiller; Acadametrics; Teranet



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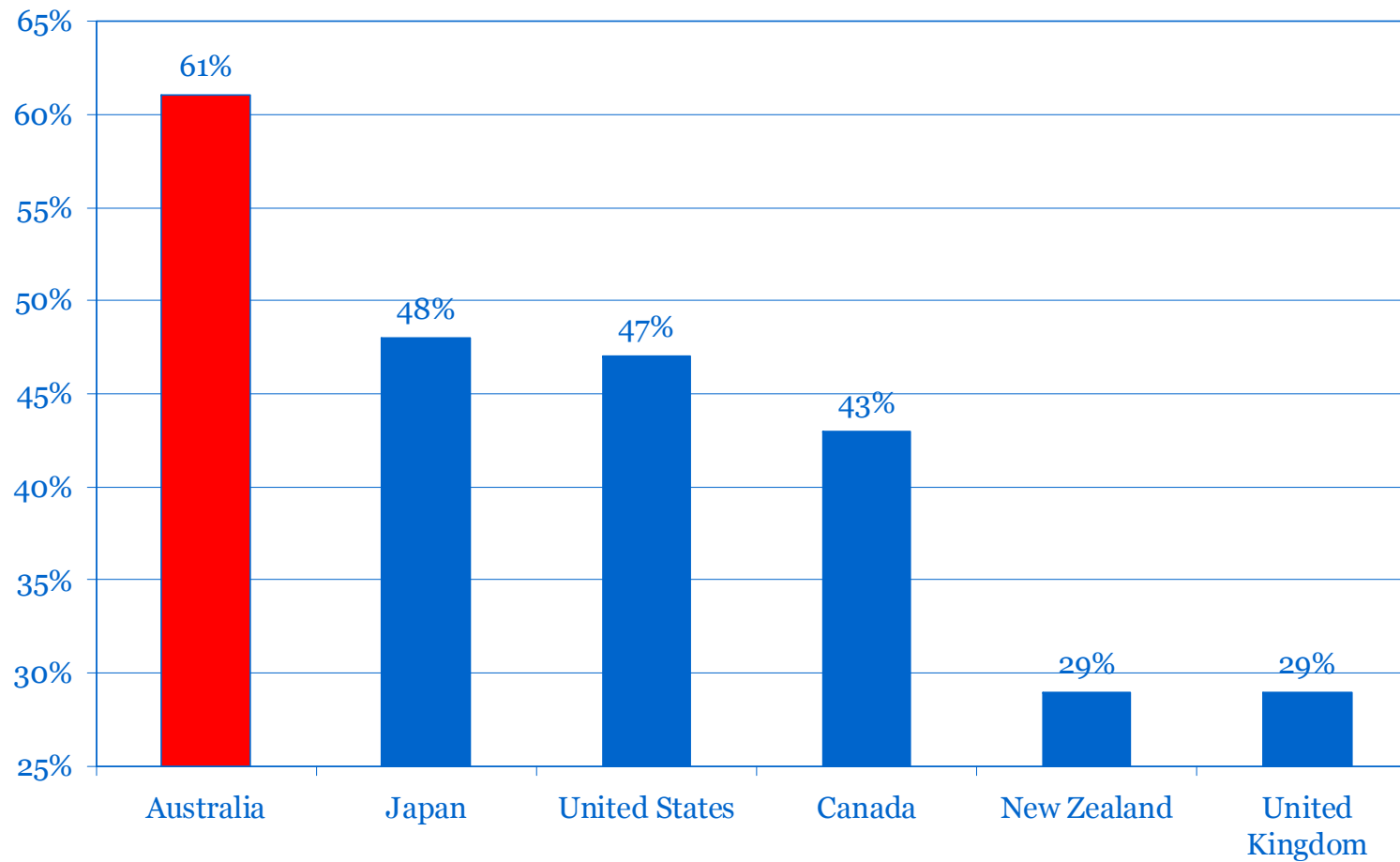
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4. Comparisons: Australia has Much Higher Urban Concentrations

Population Living in Urban Areas of Greater than 750,000 Persons



Source: PRB



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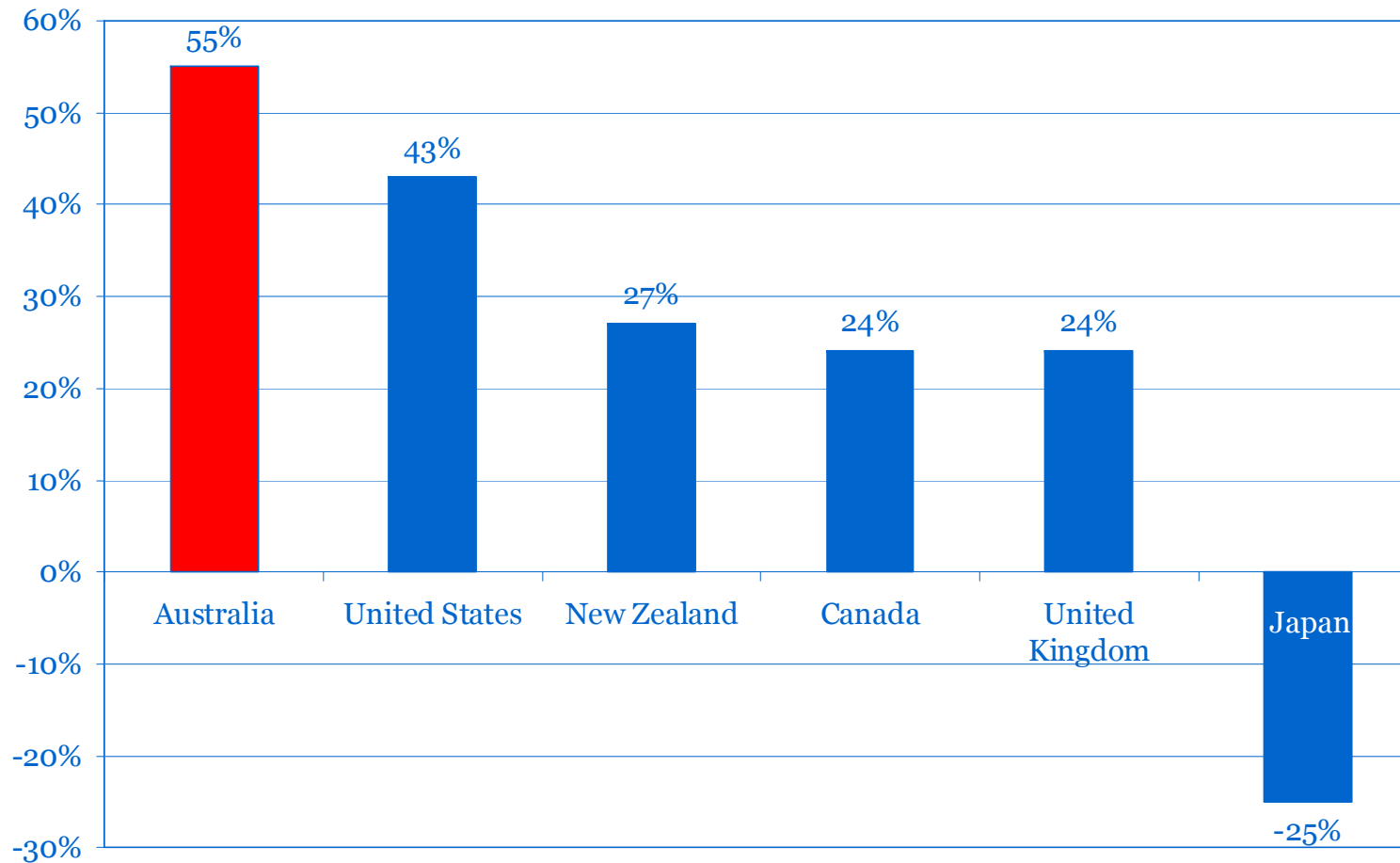
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4. Comparisons: Australia has Much Higher Projected Population Growth Rate

Projected Population Change 2009-2050



Source: PRB



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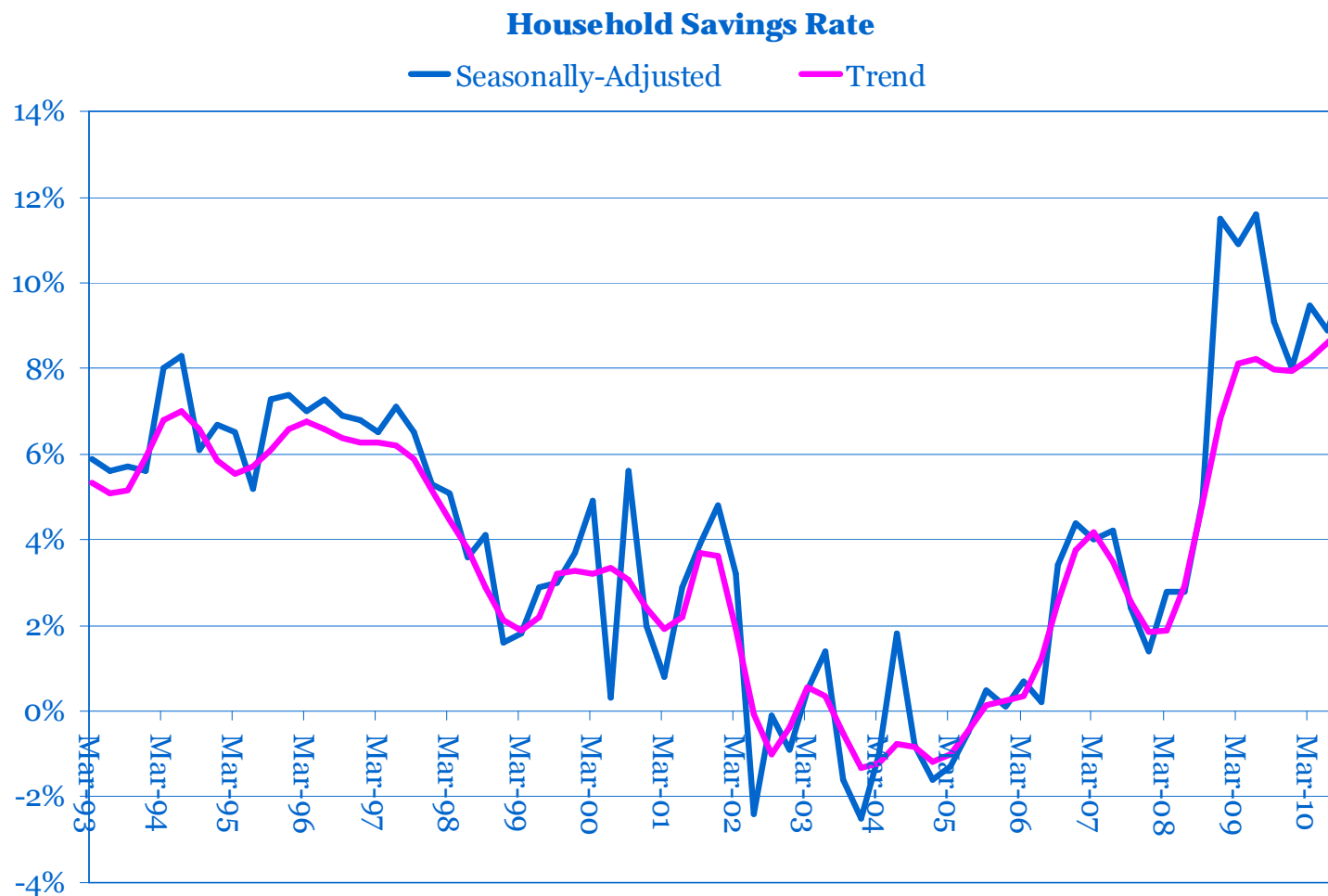


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5. Households: Deleveraging Well and Truly Under Way



Source: RBA



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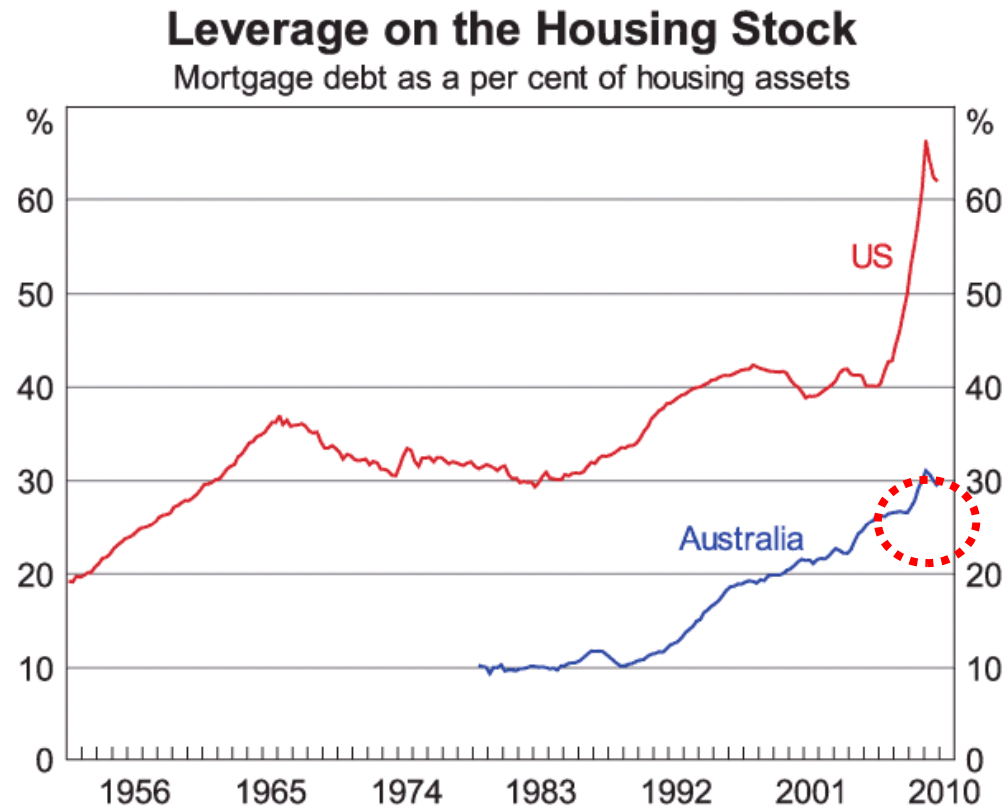


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5. Households: Australian Housing Leverage Less than Half US Levels

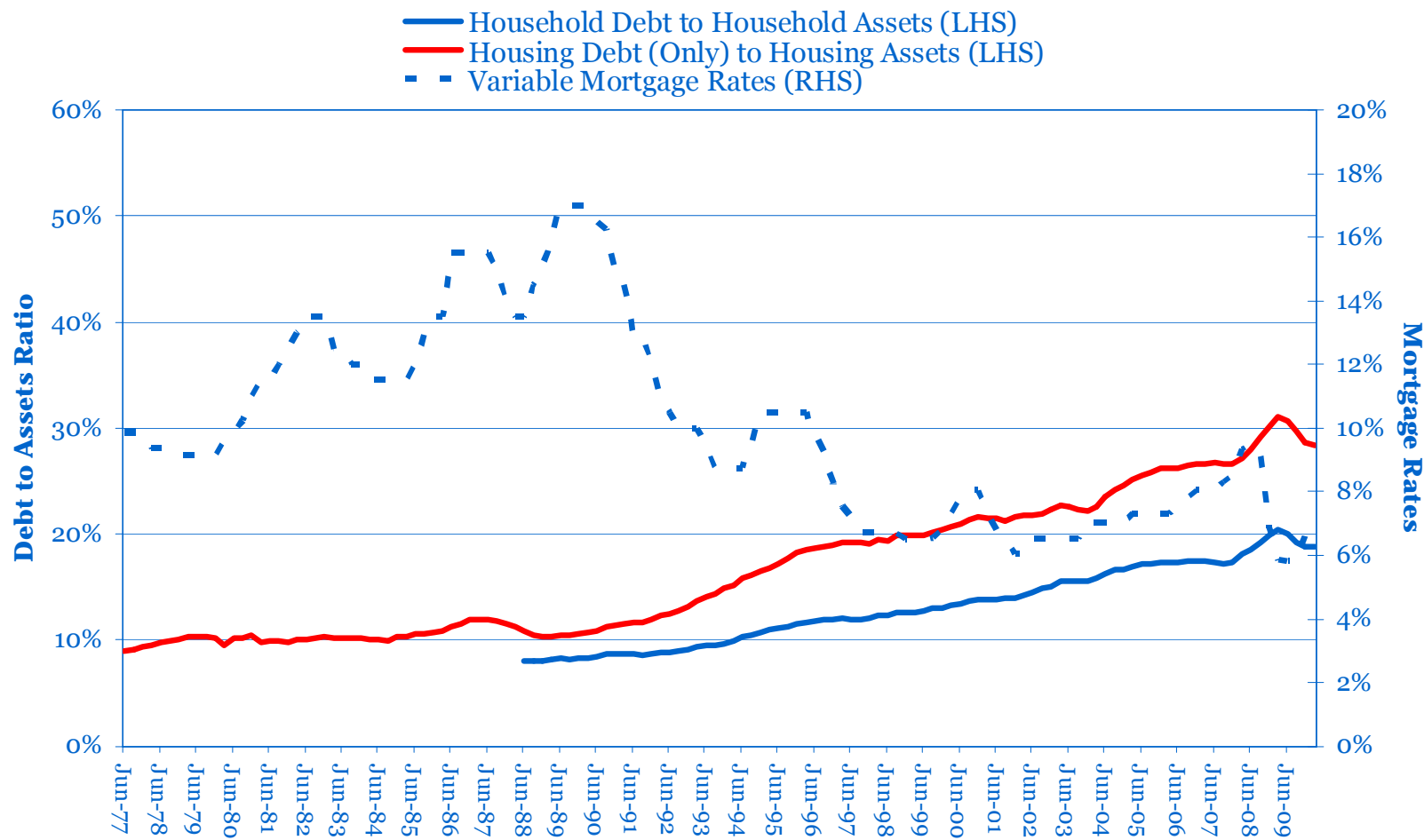


Source: RBA



5. Households: Change in Debt-to-Assets Ratios Function of Inflation-Targeting

Long-Term Australian Debt to Assets Ratios



Source: Rismark; RBA



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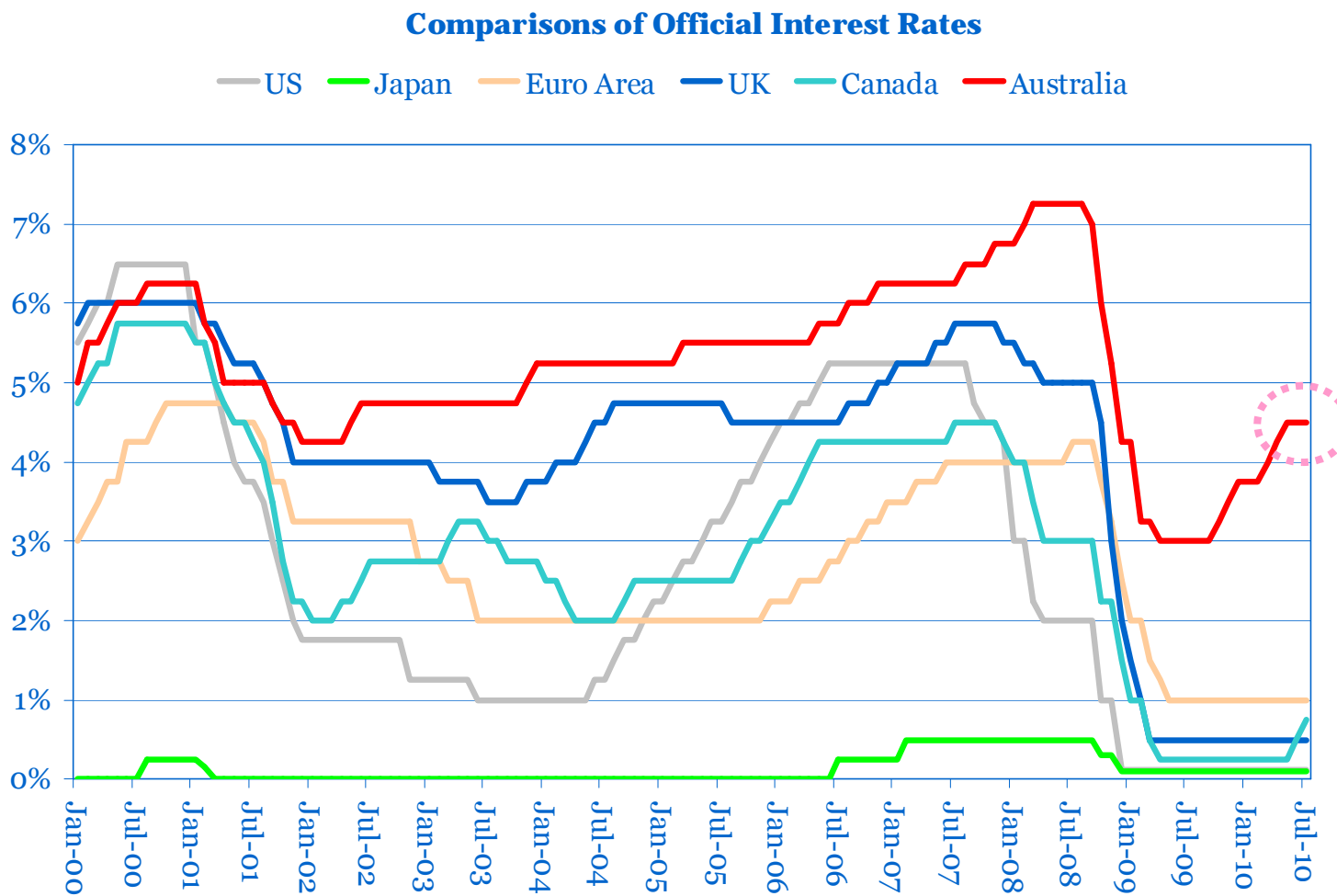


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5. Households: Australia has High Interest Rates (c. 85% Resi. Borrowers Variable)



Source: Rismark; RBA



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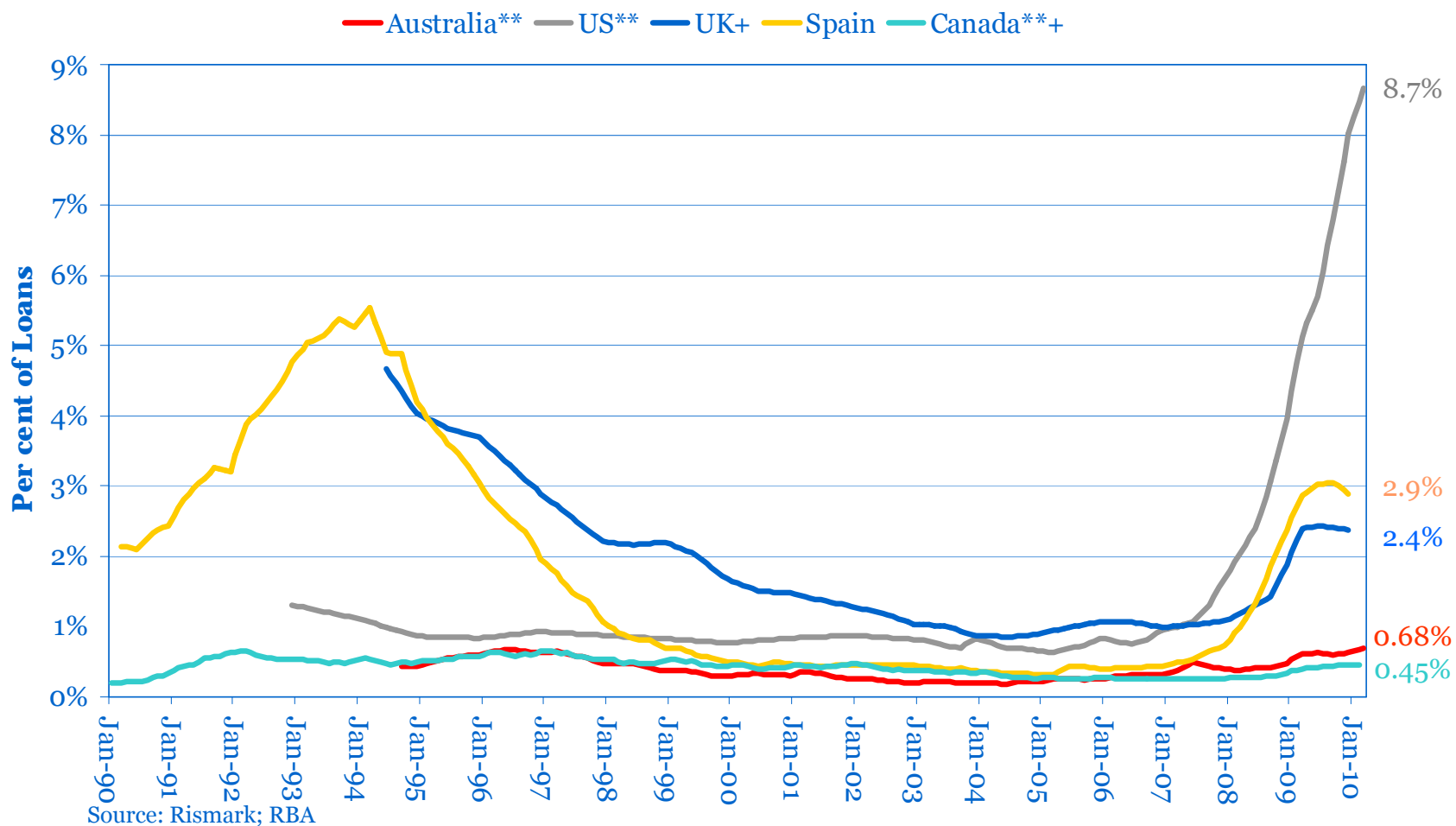
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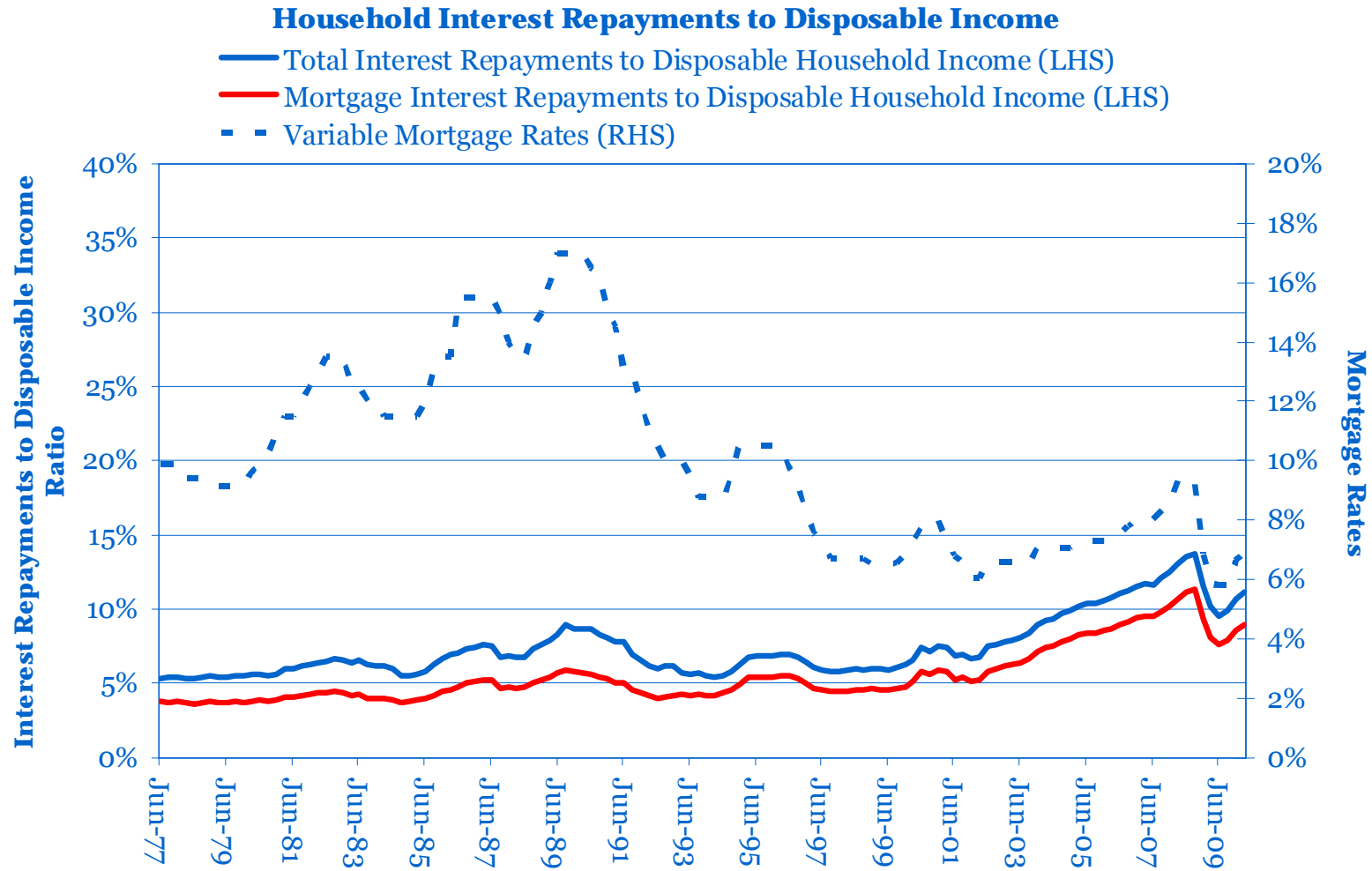
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5. Households: But Consistently Very Low Mortgage Default Rates

RBA Estimates of Non-Performing Housing Loans



5. Households: System-Wide Household DSCR is Strong



Source: Rismark; RBA



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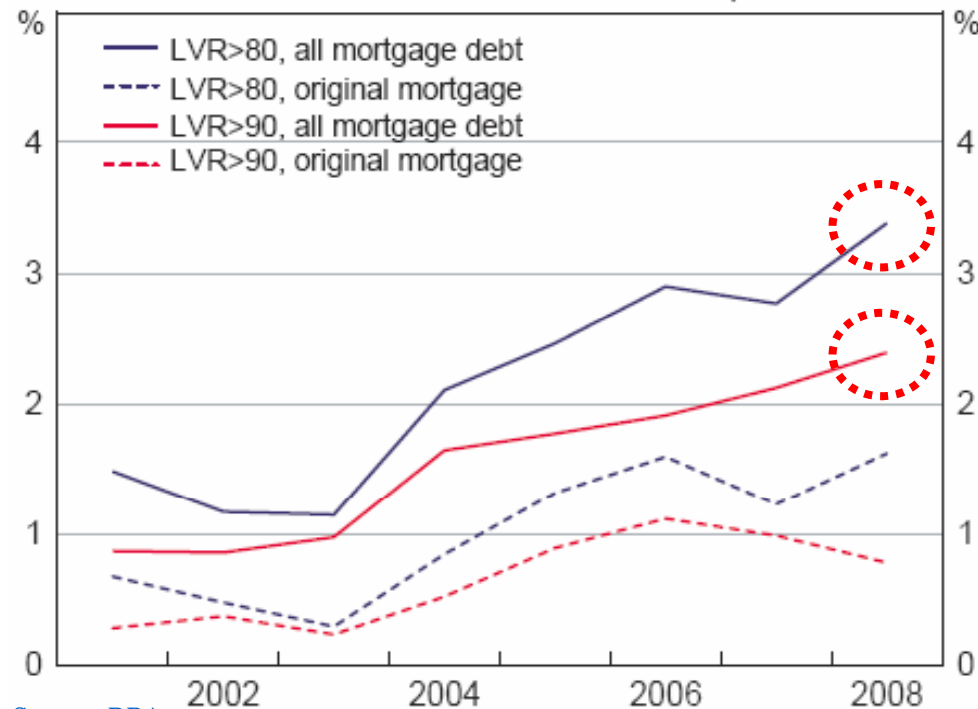
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5. Households: Only Small Share of High Risk Borrowers

- RBA: Only ~2.5% of borrowers have LVR \geq 90% AND repayments \geq 50% disposable income
- RBA: Only ~3.5% have LVR \geq 80% AND repayments \geq 50% disposable income

Households with Low Equity and High Repayments*

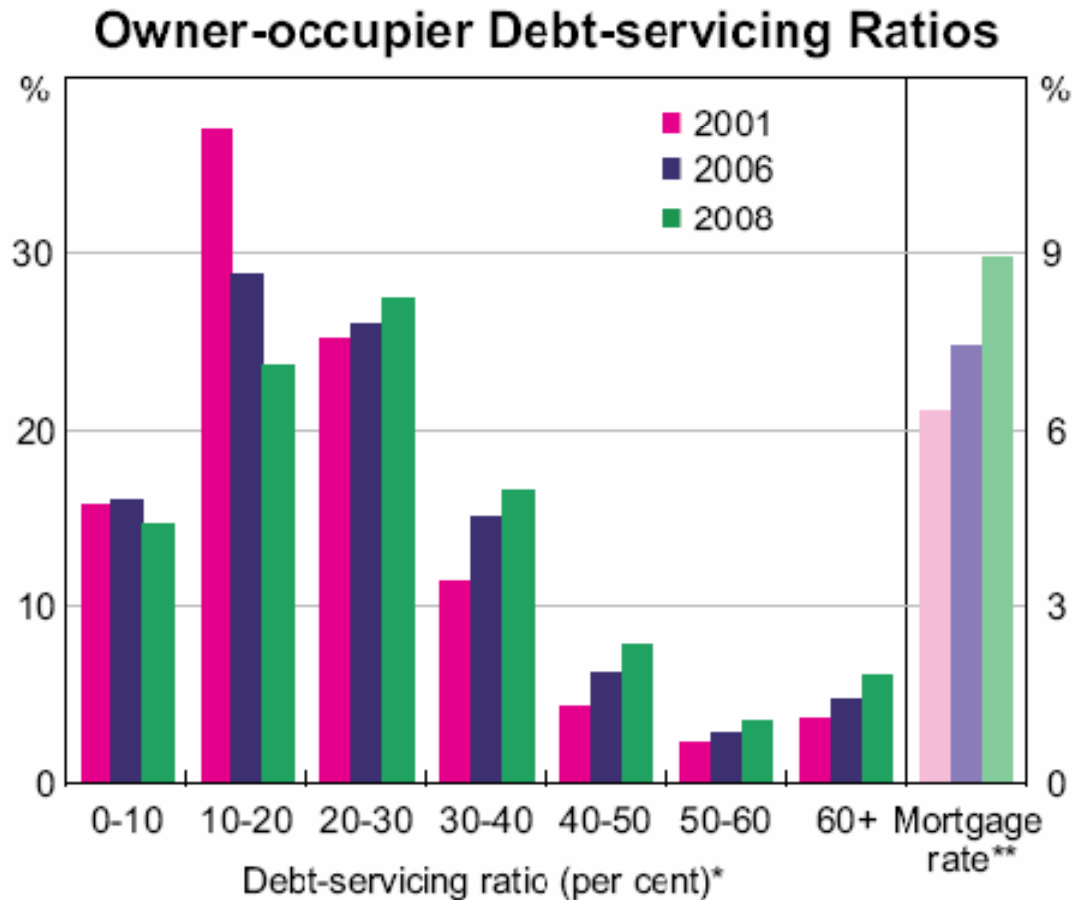
Per cent of households with owner-occupier debt



Source: RBA



5. Households: c. 83% of Borrowers Paying Away < 40% of Disposable Income

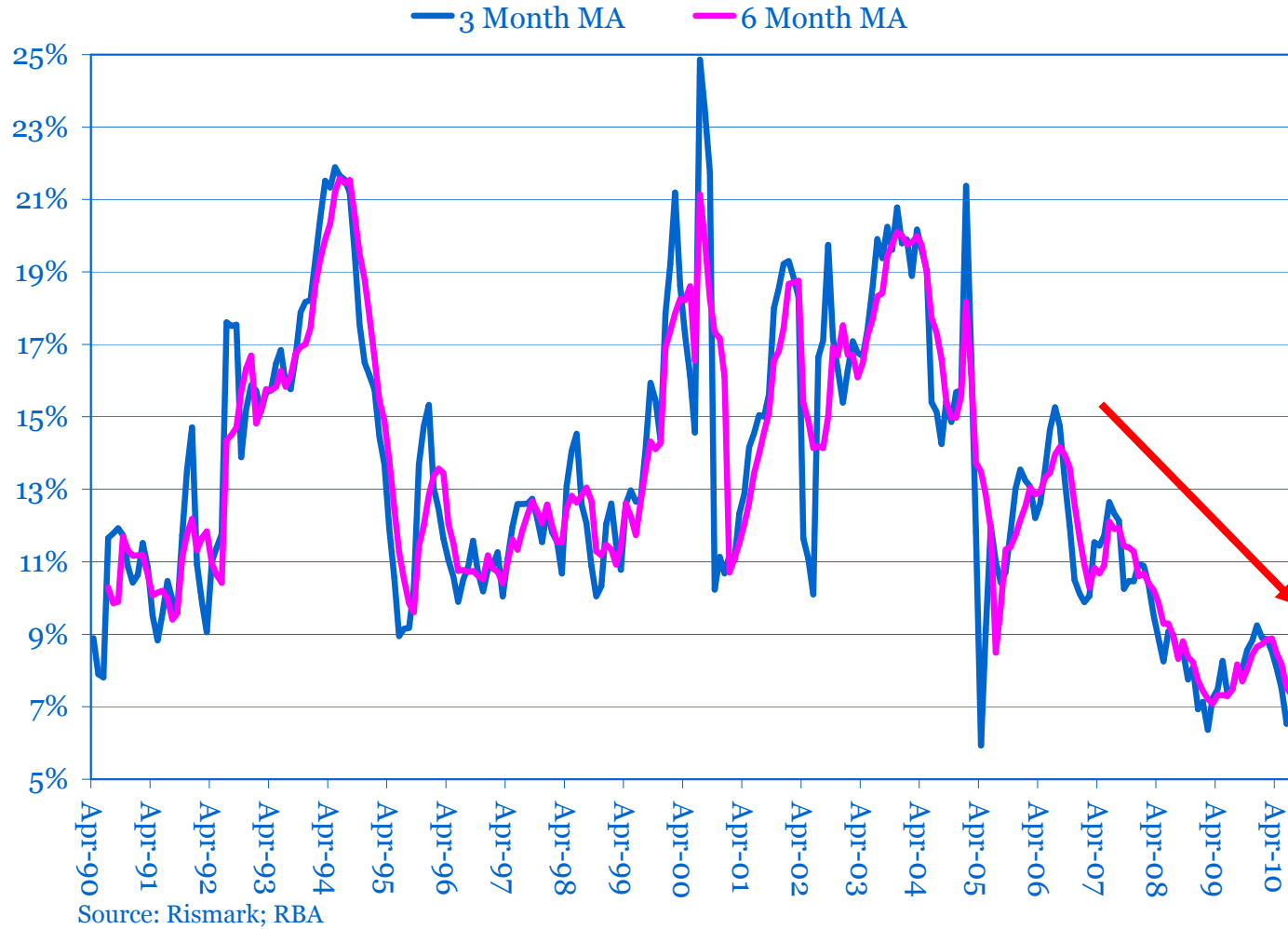


Source: RBA

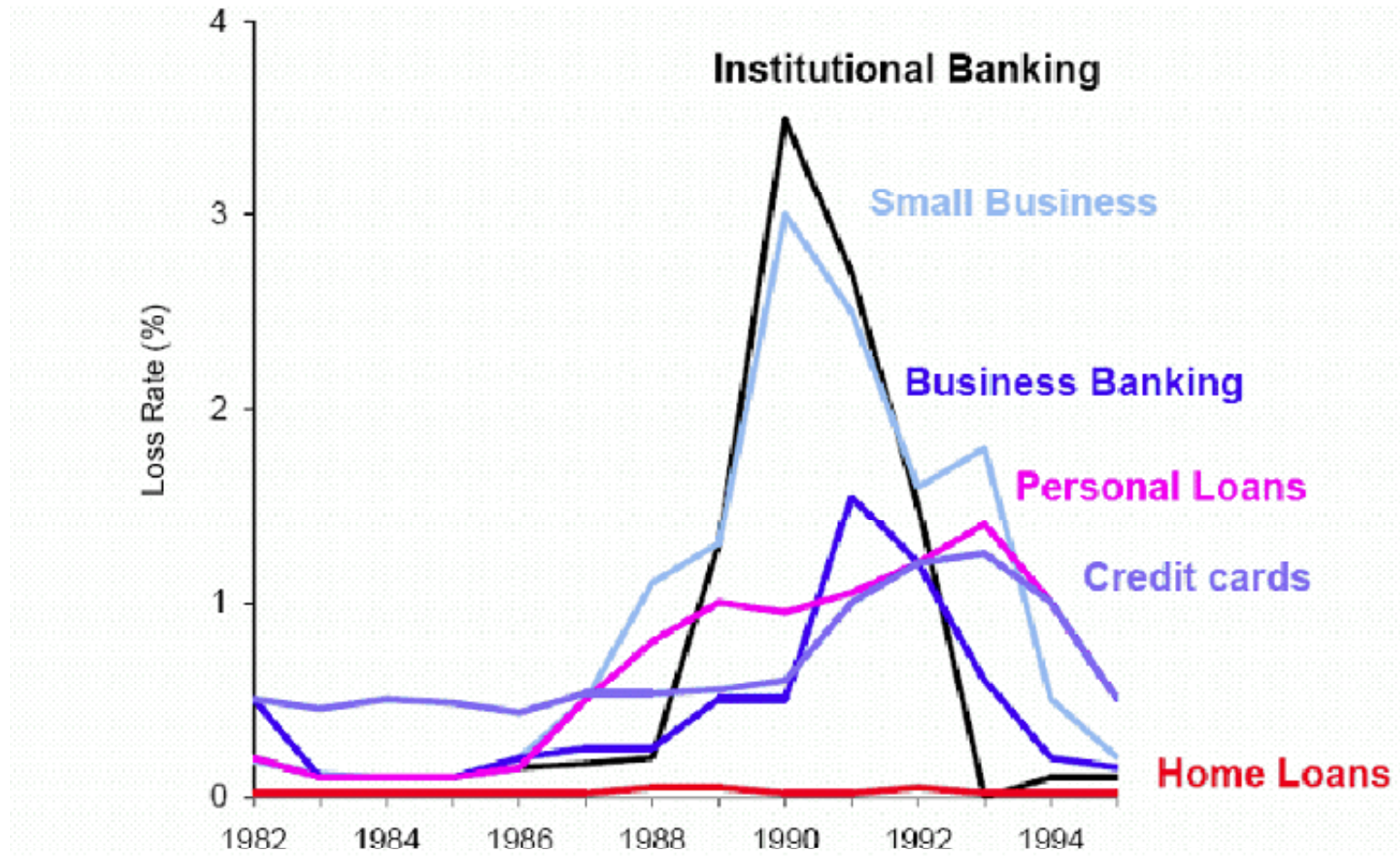


5. Households: Not Experienced Debt-Fuelled Property Boom since 2007

Change in the Value of Housing Credit Outstanding



5. Households: CBA's Loss Rates during the 1991 Recession



Source: CBA



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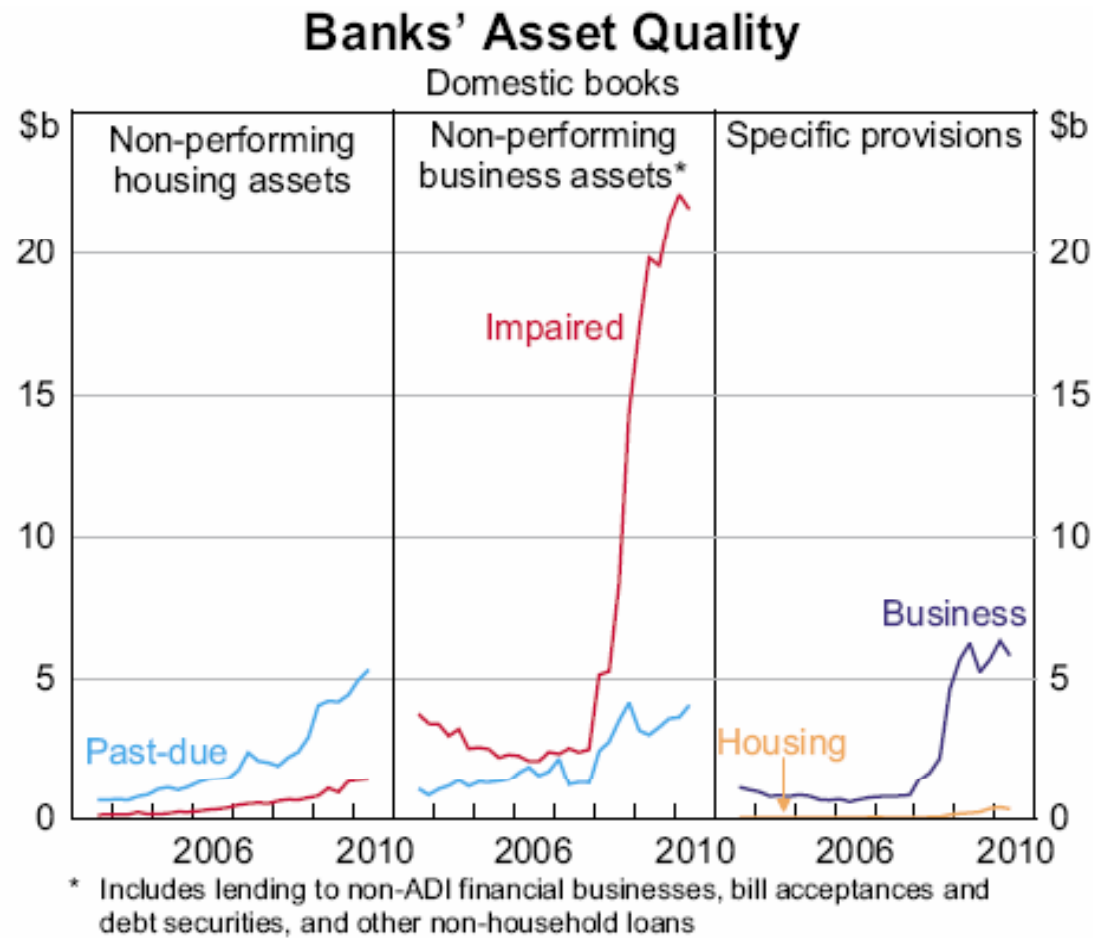


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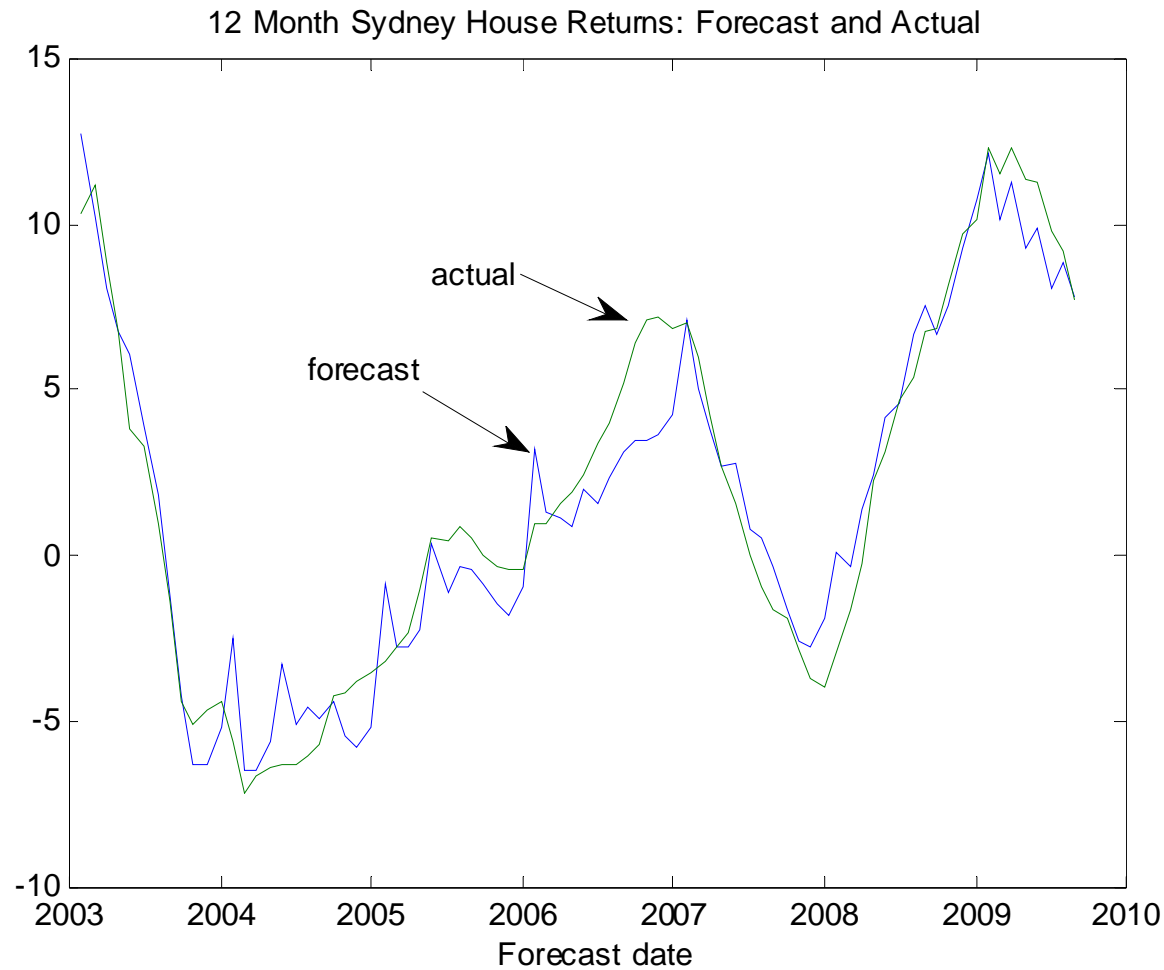
5. Households: c. \$22.5bn of Impaired Business vs. < \$2.5bn of Resi



Source: RBA



6. Rismark Forecasting Track-Record (Out-of-Sample)



Source: RP Data-Rismark



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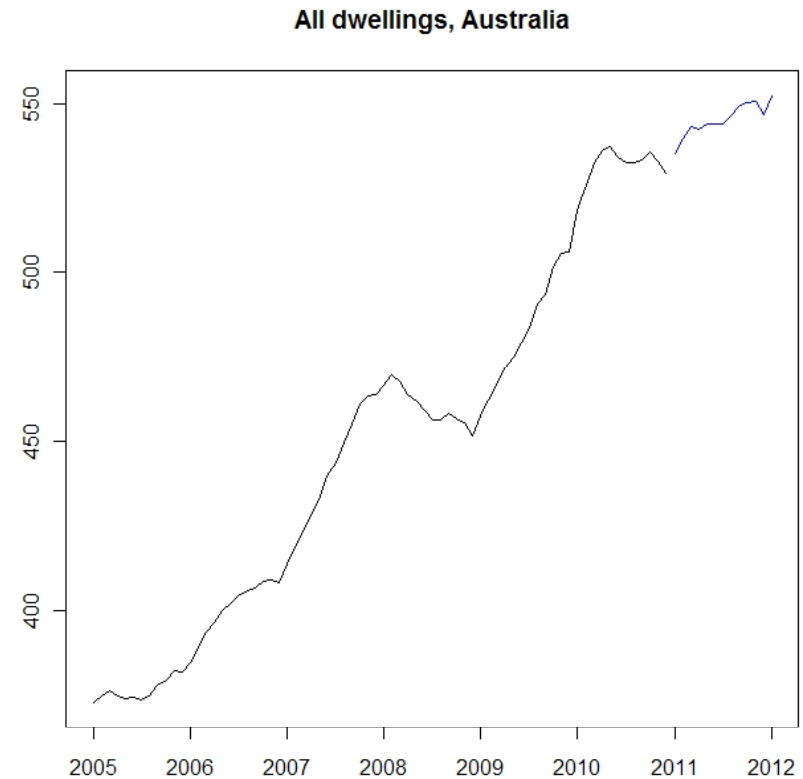
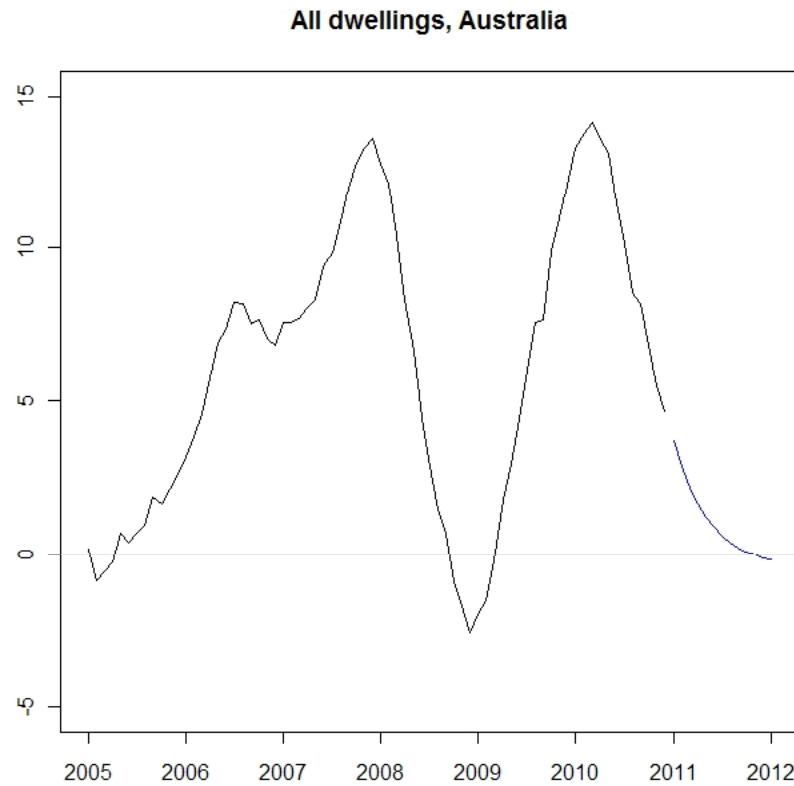


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6. Rismark Forecasts



Source: Rismark



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7. Holding Steve Keen to Account

What did Steve Keen Say?	What Happened?
House prices <i>“going to fall by 40 per cent or so in the next few years”</i>	House prices 80% above Keen forecast
A depression is <i>“almost a certainty...best case scenario is recession more severe than 1990 and lasting 1.5 times as long”</i>	Australia did not experience a depression, or even a recession
Australia would have <i>“most serious downturn we’ve ever had”</i>	Since 1959 (alone) quarterly GDP growth has been worse than Dec 2008 result on 11 occasions
Australia’s unemployment rate will rise to <i>“double digits”</i>	Unemployment rate peaked at 5.8%; today = 5.0%
<i>Expects to see an “an accelerating rate of decline in [Australian] house prices now”</i>	House prices have flat-lined
Forecasting rate is <i>“pretty close to 100%”</i>	Forecasting track-record poor



7. Holding Steve Keen to Account: Two Key Questions...

- *Does Keen Stand Behind his 2008 40% House Price Fall Forecast?*
- *Does Keen Stand by Mid 2010 Claim that House Price Declines would Accelerate?*



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