



MEDIA STATEMENT

For use 15 March 2016

Volatility smashes near-term shareholder confidence which is down more than 25% since last year

- Investors hold out hope that sharemarket will improve
- Investors tell the government to leave the current negative gearing legislation alone

The **GPS – Melbourne Institute Leading Index of Shareholder Confidence** rose by 1.1 per cent in February, after falling by 4.4 per cent in November 2015. The Index is now 8.9 per cent below its value in February 2015. Current confidence fell by 9.0 per cent driven by investor expectations that returns will be lower as evidenced by the decline in the current returns index of -32.8% since November.

Conversely, expected confidence rose by 9.5 per cent during the quarter and is 7.6 per cent above last year's level. Although investors expect stock market conditions to improve and volatility to drop their current level of confidence remains depressed with a significant level of uncertainty regarding domestic and overseas economic conditions.

The downward pressure on commodities and in particular oil prices, the slashing of dividends by the big miners and a weak market for banking stocks has suppressed current confidence in the domestic economy.

However, investors also see the opportunity for trading with a higher number prepared to buy rather than sell stocks. Trading intentions indicate relative buying preferences for stocks in the industrials, metals/miners and consumer staples sectors. Recent buyers have been primarily motivated by personal reasons, whereas sellers cite global and domestic economic conditions as the main reason for selling (see Chart 2).

Tax Reform

In supplementary questions asked during the Index survey, almost double the number of shareholders interviewed said that negative gearing is not warranted as part of the government's tax review. However, only 10.6 per cent said they would buy if changes were made to negative gearing and tax but at this stage most (56.9 per cent) are uncertain if it would have any impact on their level of confidence in the Australian economy.



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Market Volatility

The **GPS-MI Index** measure of volatility pressure – which tracks the **S&P/ASX 200 VIX** and is derived as the difference between expected and current volatility – indicates that volatility in the next three months will be greater than that observed over the previous three months.

The **GPS-MI Index** and the **S&P/ASX** Index have fluctuated with roughly similar movements since the Index was established six years ago.

Dr Sam Tsiaplias of the **Melbourne Institute** said that the findings validate the deeply held concerns expressed by investors last November. “Investor confidence continues to be hit by hesitation about short-term economic conditions but investors can now see a light at the end of the tunnel with sentiment improving.”

GPS Director Andrew Thain said “Given current market volatility on the back of the latest reporting season where companies that missed their earnings forecasts were heavily sold off, it doesn't come as a surprise that current confidence has again fallen dramatically. It's clear that investors are hesitant to jump into the market but the positive numbers regarding future confidence is a real opportunity for companies to get out there and actively engage to help build on that. What investors are telling us is that they value good communication from boards and management especially when the market cycle is volatile and they want to be assured that their investment is in safe hands”. As far as the debate on negative gearing, investors don't seem to be supportive of change and this will be an issue that will have to be carefully managed leading up to the polls.”

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About the GPS – Melbourne Institute Leading Index of Shareholder Confidence

GPS and the Melbourne Institute have partnered to undertake and publish market-leading research to address the question of shareholder confidence among Australians who invest in shares.

The GPS - Melbourne Institute Leading Index of Shareholder Confidence[™] is a summary balance measure of shareholders' confidence in the Australian share market. It is based on shareholders' assessment of three factors: Returns, Volatility and Trading Intentions (whether to buy or sell). Information from these factors are summarised and presented as component Indices. The components are then compiled into the Shareholder Confidence Index.

The first survey was conducted during March 2009 and the latest survey was conducted in the first week of March 2016. All surveys are conducted over the telephone and are based on 1000 respondents aged 18 years and over across Australia who directly own shares in companies listed on the Australian Securities Exchange. The survey is published quarterly. The Index is designed for easy interpretation - a value below 100 is suggestive of 'bearish' sentiment while a value above 100 is suggestive of 'bullish' sentiment.

ABOUT GPS

GPS is Australia's leading shareholder engagement firm and assists boards & management with engagement, governance and proxy strategies. Services support company meetings, M&A events and capital raisings. GPS acts for ASX listed and foreign companies, private equity, hedge funds and activist investors. Since 2007 GPS has conducted many hundreds of campaigns for transactions valued at more than \$550 billion.

Further information on GPS can be found at www.gpsproxy.com.au

ABOUT THE MELBOURNE INSTITUTE OF APPLIED ECONOMIC AND SOCIAL RESEARCH

The Melbourne Institute is the first University-based research institute of its kind in Australia, established for the purpose of conducting research into a wide range of macroeconomic, microeconomic and social economic issues. It was established in 1962 as a research Department of the Faculty of Economics and Commerce at the University of Melbourne.

The Melbourne Institute is a major centre for applied economic and social research that is nationally and internationally renowned in academia, government, business and community groups. The Melbourne Institute seeks to promote a deeper understanding and discussion of economic and social issues of national significance as well as to foster effective policy responses to these issues.

As well as contributing strongly to the academic literature in economics, the Melbourne Institute has a long-standing tradition of collaborating with major organisations by providing consultancy services and evidence-based quantitative research.

Further information on the Melbourne Institute can be found at www.melbourneinstitute.com