

# Coronation CEO explains “bear market” comment in its annual results presentation

*This fund manager does not “time markets”; explains where it is putting its clients’ money at the moment*

**By: JULIUS COBBETT**

CORONATION CEO Hugo Nelson stresses that his firm does not try to time the stock market. He was commenting on the reaction to a statement in the asset manager's financial results which noted “there is little doubt that the bear market will continue for a sustained period”.

Taken at face value, this would suggest that it's silly to invest in the market now, because low prices will be with us for some time. One might as well keep money in the bank, and invest just before the market turns.

However, this is not what Coronation is saying. According to Nelson: “What we are really saying is that we are fully invested in equities at the moment, regardless of whether you're looking at domestic equities or global equities,

on behalf of our clients.”

He adds that “one can make the mistake of looking at that and saying, well we're making a timing view on the market or we're taking a view on the market as to, you know, the bear market has ended or something of that nature—and nothing could be further from the truth. We always take valuation views.”

Nelson stressed that Coronation does not know whether the market has bottomed or whether the recent rally is the turn in the market we've been waiting for. “We think that global economies, while governments have responded very aggressively and very appropriately, there is still some water that has to flow under the bridge. But we think that asset values are very cheap—particularly risky

assets are very, very cheap.”

It's worth asking just how “cheap” shares are at the moment. Not as cheap as they have been before, says Nelson.

He points to a measure of stock market value based on work done by American economist Robert Shiller. The model uses a “normalized” price-to-earnings multiple (PE), which is based on earnings for a longer-time period.

This Shiller PE multiple lowered to 12 or 13 at its lowest point in the current bear market, says Nelson. This compares with a long-term average of about 16, whereas in previous bear markets, the measure has fallen below ten times.

Nelson says that markets became very attractive, but did not get “down to the absolutely low levels that one saw when the wheels really came off in periods of the US market history. But, you know, on a balance of probabilities you're certainly sitting in an environment where those sort of odds are on your side from a valuation perspective.”

Nelson says that Coronation's largest holding is in MTN. His firm also sees value in select platinum, oil and diversified resources shares.