



PHILO CAPITAL ADVISERS

# POLITICS AND THE MARKETS

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# POLITICS AND THE MARKETS

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Since the hung parliament election in Australia in August of this year, we are now into a (hopefully brief) period without an effective government. We can only wish for another election soon to elect a government outright. During the recent election campaign there was a lot of silly propaganda from the left and right sides of politics and in the media, about which side is better for the economy. So we need to get back to some facts.

Does government make a difference to investors?

This article looks at the record of Australian Commonwealth government from both the left and right sides of politics since Federation in 1901.

## **Left of Right?**

For this article I have labeled each government as either “left-leaning” or “right-leaning”, so we can compare performance and outcomes.

Since the 1940s, labeling “right-leaning” and “left-leaning” governments has been relatively simple – Liberal = “right” and Labor = “left”. Traditionally, “left” means pro-workers (Labor Party), and “right” means pro-business (Liberal party). Many people will argue, of course, that the Howard Liberal government was far more right wing than the Fraser Liberal government, and that the Whitlam Labor government was far more left wing than the Hawke & Keating Labor governments. In many ways the Hawke & Keating Labor governments were more right-leaning than the Fraser Liberal government. But we will call Labor “left” and Liberal “right” for this exercise.

The first 40 years after Federation was a little more complex as it wasn't just a question of Liberal versus Labor. Several other parties held government at various times, several Prime Ministers switched parties, and affiliations between parties changed constantly. For example, Billy Hughes (who was Prime Minister from October 1915 to February 1923) was at various times a member of the Labor Party, National Labor, the Nationalist Party, the United Australia Party, and the original Liberal Party! (And you thought Brendan Nelson was bad!)

Based on their economic policies at the time, I have labeled the Protectionist Party, the Fusion Party, the Free Trade Party, the Nationalist Party, the early Liberal Party, and the Country Party (under Fadden and McEwen but not under Page) and as “right-leaning”, and I have labeled the United Australia Party, the National Labor Party and the Australian Labor Party as “left-leaning”. There is a degree of subjectivity

involved here, but it is probably a good starting point for the exercise. Here are the details of each of our 28 Prime Ministers:

Table 1: Australia's 28 Prime Ministers:

Left / Right	PM no.	PM	Party	Start	End	Years
Right	1	Edmund Barton	Protectionist	Tue-01-Jan-1901	Thu-24-Sep-1903	2.7
Right	2	Alfred Deakin (1)	Protectionist, Fusion, Lib	Thu-24-Sep-1903	Wed-27-Apr-1904	0.6
Left	3	John Watson	Labor	Wed-27-Apr-1904	Thu-18-Aug-1904	113 days
Right	4	George Reid	Free Trade	Thu-18-Aug-1904	Wed-05-Jul-1905	0.9
Right		Alfred Deakin (2)	Protectionist, Fusion, Lib	Wed-05-Jul-1905	Fri-13-Nov-1908	3.4
Left	5	Andrew Fisher (1)	Labor	Fri-13-Nov-1908	Wed-02-Jun-1909	0.6
Right		Alfred Deakin (3)	Protectionist, Fusion, Lib	Wed-02-Jun-1909	Fri-29-Apr-1910	0.9
Left		Andrew Fisher (2)	Labor	Fri-29-Apr-1910	Tue-24-Jun-1913	3.2
Right	6	Joseph Cook	Free Trade, Lib, Nationalist	Tue-24-Jun-1913	Thu-17-Sep-1914	1.2
Left		Andrew Fisher (3)	Labor	Thu-17-Sep-1914	Wed-27-Oct-1915	1.1
Left	7	Billy Hughes	ALP, National Labor, Nationalist, United Australia, Lib	Wed-27-Oct-1915	Fri-09-Feb-1923	7.3
Right	8	Stanley Bruce	Nationalist	Fri-09-Feb-1923	Tue-22-Oct-1929	6.7
Left	9	James Scullin	Labor	Tue-22-Oct-1929	Wed-06-Jan-1932	2.2
Left	10	Joseph Lyons	Labor, United Aust	Wed-06-Jan-1932	Fri-07-Apr-1939	7.3
Left	11	Earle Page	Country	Fri-07-Apr-1939	Sat-24-Jun-1939	78 days
Right	12	Robert Menzies (1)	United Aust, Liberal	Sat-24-Jun-1939	Fri-29-Aug-1941	2.2
Right	13	Arthur Fadden	Country	Fri-29-Aug-1941	Tue-07-Oct-1941	39 days
Left	14	John Curtin	Labor	Tue-07-Oct-1941	Fri-06-Jul-1945	3.7
Left	15	Frank Forde	Labor	Fri-06-Jul-1945	Fri-13-Jul-1945	7 days
Left	16	Ben Chifley	Labor	Fri-13-Jul-1945	Mon-19-Dec-1949	4.4
Right		Robert Menzies (2)	Liberal	Mon-19-Dec-1949	Wed-26-Jan-1966	16.1
Right	17	Harold Holt	Liberal	Wed-26-Jan-1966	Tue-19-Dec-1967	1.9
Right	18	John McEwen	Country	Tue-19-Dec-1967	Wed-10-Jan-1968	22 days
Right	19	John Gorton	Liberal	Wed-10-Jan-1968	Wed-10-Mar-1971	3.2
Right	20	Billy McMahon	Liberal	Wed-10-Mar-1971	Tue-05-Dec-1972	1.7
Left	21	Gough Whitlam	Labor	Tue-05-Dec-1972	Tue-11-Nov-1975	2.9
Right	22	Malcolm Fraser	Liberal	Tue-11-Nov-1975	Fri-11-Mar-1983	7.3
Left	23	Bob Hawke	Labor	Fri-11-Mar-1983	Fri-20-Dec-1991	8.8
Left	24	Paul Keating	Labor	Fri-20-Dec-1991	Mon-11-Mar-1996	4.2
Right	25	John Howard	Liberal	Mon-11-Mar-1996	Sat-24-Nov-2007	11.7
Left	27	Kevin Rudd	Labor	Sat-24-Nov-2007	Thur-24-Jun-2010	2.6
Left	28	Julia Gillard	Labor (with Greens, Indep)	Thur-24-Jun-2010		

NB I have labeled Earle Page as a "left" PM even though he was a member of the Country Party, as he served as acting PM under both Bruce (Nationalist) and Lyons (Labor), and took office on the death of Lyons before the election of Menzies' first term in 1939.

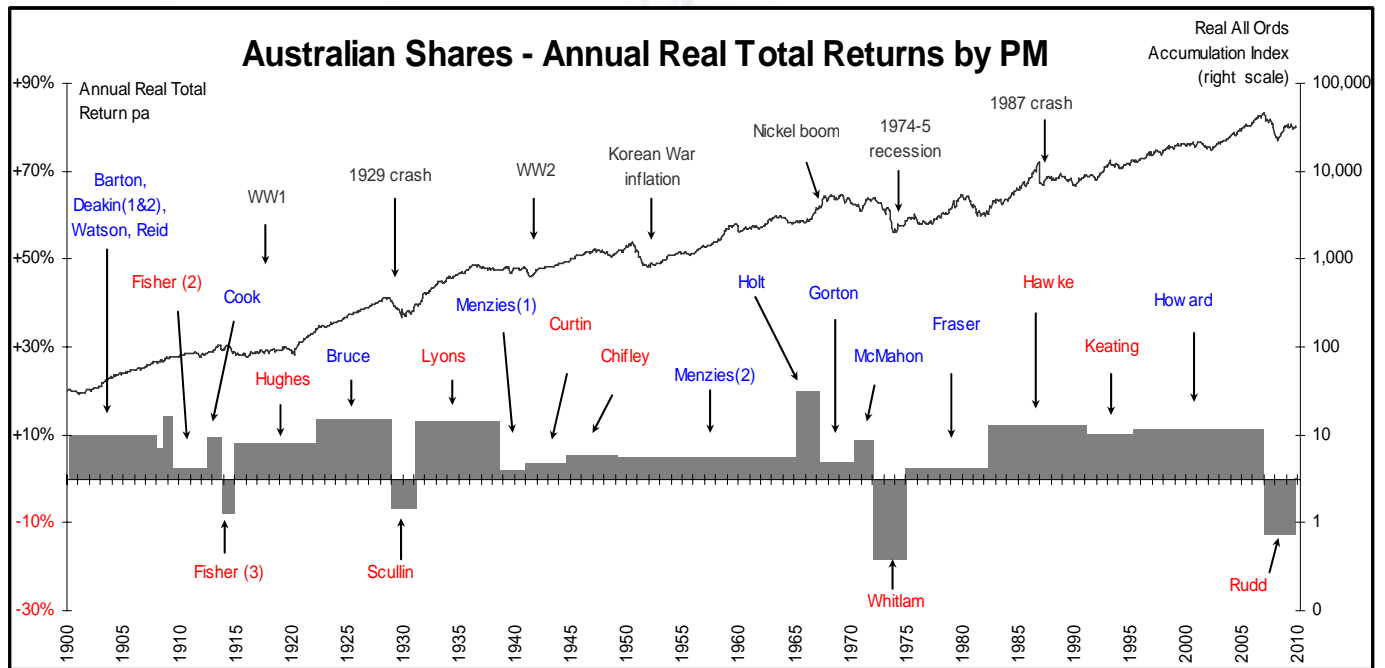
Twenty eight Prime Ministers over 110 years is an average of only 3.9 years each. If you ignore the temporary "fill-in" periods of Watson, Page, Fadden, Forde and McEwen, 23 Prime Ministers over 110 years is an average of 4.8 years per PM, which is almost exactly the same as in the US (The US has had 44 Presidents in 218 years, which is an average of 4.9 years per President)

In the tables and charts that follow, I group the period from Barton to the end of Deakin's second term as a single period of "right-leaning" government, although it included a very brief period in mid 1904 when Watson held office.

## **Stock Market Returns**

First we look at returns from Australian shares under each government. We measure total returns (ie capital gains plus dividends) in real terms (after CPI inflation) during the period in which each PM held office. On the following chart the line shows the real All Ordinaries Accumulation index (which is the All Ordinaries Accumulation Index deflated by CPI inflation using December 2009 as a base) and the bars on the chart show the average annual real total returns during the term of each PM.

Chart 1: Australian Shares since Federation



The PM with the highest returns under his watch was Harold Holt – with real total returns averaging nearly 20% pa during his 2 year rein from January 1966 to his drowning in December 1967. The nickel boom was in full swing. It went on to peak at the start of 1970 under Gorton, and collapsed with the early 1970s recessions under McMahon & then Whitlam.

In terms of the average real total returns from shares under various governments, "right" leaning governments win by about 3% pa over the whole period since Federation, and by a similar margin in just the post-WW2 period.

This is shown in the next table:

Table 2: Stock market returns by PM

Stock market returns:			Real Total Return pa during term	
	PM	Years	Left	Right
Right	Barton, Deakin(1), Watson, Reid, Deakin(2)	9.3		+9.9%
Left	Andrew Fisher (1)	0.6	+7.1%	
Right	Alfred Deakin (3)	0.9		+14.4%
Left	Andrew Fisher (2)	3.2	+2.3%	
Right	Joseph Cook	1.2		+9.6%
Left	Andrew Fisher (3)	1.1	-8.1%	
Left	Billy Hughes	7.3	+8.1%	
Right	Stanley Bruce	6.7		+13.6%
Left	James Scullin	2.2	-7.0%	
Left	Joseph Lyons, Page	7.5	+13.3%	
Right	Menzies (1), Fadden	2.3		+2.1%
Left	John Curtin, Forde	3.8	+3.6%	
Left	Ben Chifley	4.4	+5.2%	
Right	Menzies (2)	16.1		+5.2%
Right	Harold Holt, McEwen	2.0		+19.8%
Right	John Gorton	3.2		+3.9%
Right	Billy McMahon	1.7		+8.7%
Left	Gough Whitlam	2.9	-18.3%	
Right	Malcolm Fraser	7.3		+2.5%
Left	Bob Hawke	8.8	+12.0%	
Left	Paul Keating	4.2	+10.2%	
Right	John Howard	11.7		+11.2%
Left	Kevin Rudd	2.7	-12.9%	
1901-2010 weighted av:			+4.9%	+8.2%
Post WW2 weighted av:			+3.6%	+7.1%

There were only four PMs who presided over periods of negative real total returns from the share market, and they were all left-leaning – Fisher, Scullin, Whitlam and Rudd. They would all claim that the losses were not of their making of course. Each would argue that the losses were due to excesses of the prior administrations, and/or to global crises - and they would largely be correct.

Fisher can hardly be blamed for the world-wide stock market falls on the outbreak of the First World War, and the other three PMs all came to power after economic booms when stock markets were on the brink of collapse.

Scullin came to power just six days before the great Wall Street crash of “Black Monday” 28<sup>th</sup> October 1929, after the long 1920s boom under Stanley Bruce. Even before the crash the Australian economy had been in recession by 1927-8, following the halving of wool and wheat prices, and exacerbated by the failure of government bond issues in London following the profligate government spending spree in the 1920s (although most of the loose spending was by the States, not the Federal government). On the other hand, there is little doubt that Scullin made things considerably worse with his “Scullin Tariff” and with the hard-line Niemeyer plan and Premier’s Plan to cut spending savagely on the onset of the depression, although much of this was carried forward under Joe Lyons (both Scullin and Lyons were Labor).

Whitlam came to power in a wave of euphoria after the long period of Liberal rule under Menzies, Holt, Gorton and McMahon. In the brief but event-filled Whitlam years the share market headed straight down with very little respite for shareholders. There were two periods of major stock market losses. The first was the inevitable collapse of the crazy mining boom in the late 1960s during which prices reached ridiculously high levels and were bound to collapse. The second share market collapse in 1973-4 was a much more wide-



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