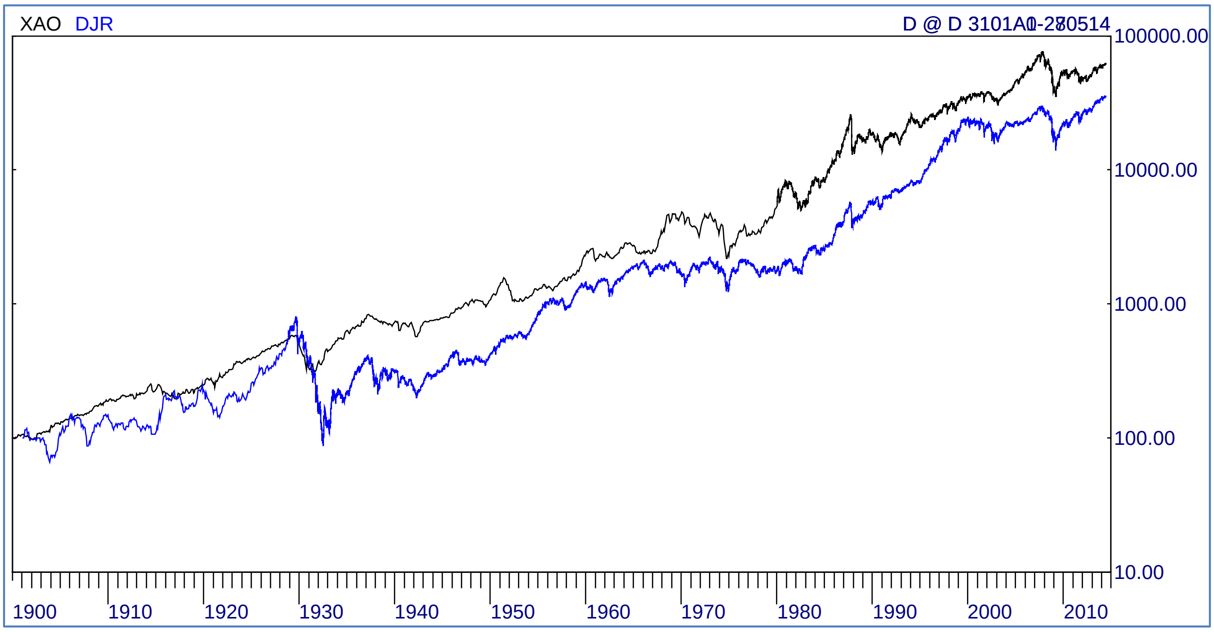
Comparing Stock Markets

The problem in comparing stock markets is that it may be possible to prove one is performing better than another by choosing an appropriate starting point for the comparison. If a different starting point is chosen, then it may be possible to draw the opposite conclusion.

In trying to draw meaningful comparisons between the US and Australian stock markets, I have started with the longest-term picture that I can. I have data for both markets since 1900. For the US, I have both the data for the Dow Jones Industrial Average and for the S&P 500 index. For Australia I have the ASX All Ordinaries Index.

I have started with a comparison of the ASX All Ordinaries Index and the Dow Jones Industrial Average; both rebased both to 100 in 1900:



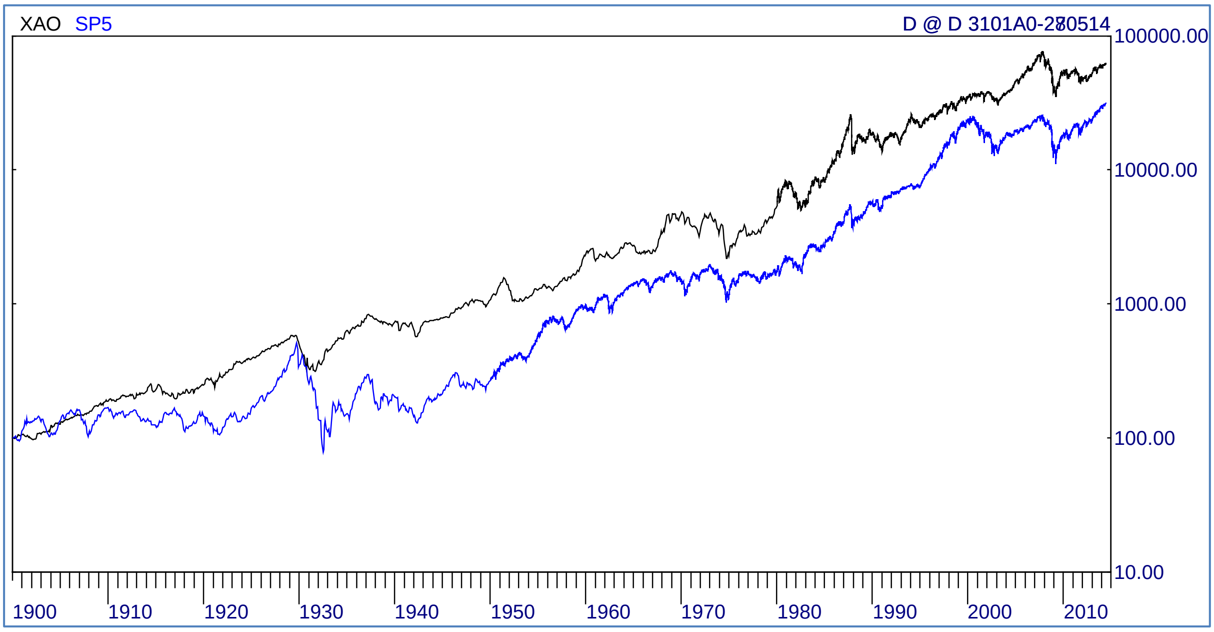
In this chart, the black line is the ASX All Ordinaries index and the blue line is the Dow Jones Industrial Average. This shows that they reached a similar level in 1929, but since the resulting bear market, the US market has never again caught up with our market.

Notice also that while there are broad similarities, there are also important differences. In particular:

1. Between 1960 and 1980 the US market made little overall progress, while our market finished that twenty-year period significantly higher.
2. Before the 1987 "crash", the Australian market had risen far more strongly than the US market. Then after the 1987 "crash", the US market resumed its strong rise, while our market spent 1988-1992 essentially going sideways.
3. Between 2003 and 2007 our market far out-performed the US market. Then after the 2008-09 bear market the US market has performed much better than ours. This is, in my view fairly much a repeat of the post 1987 picture.

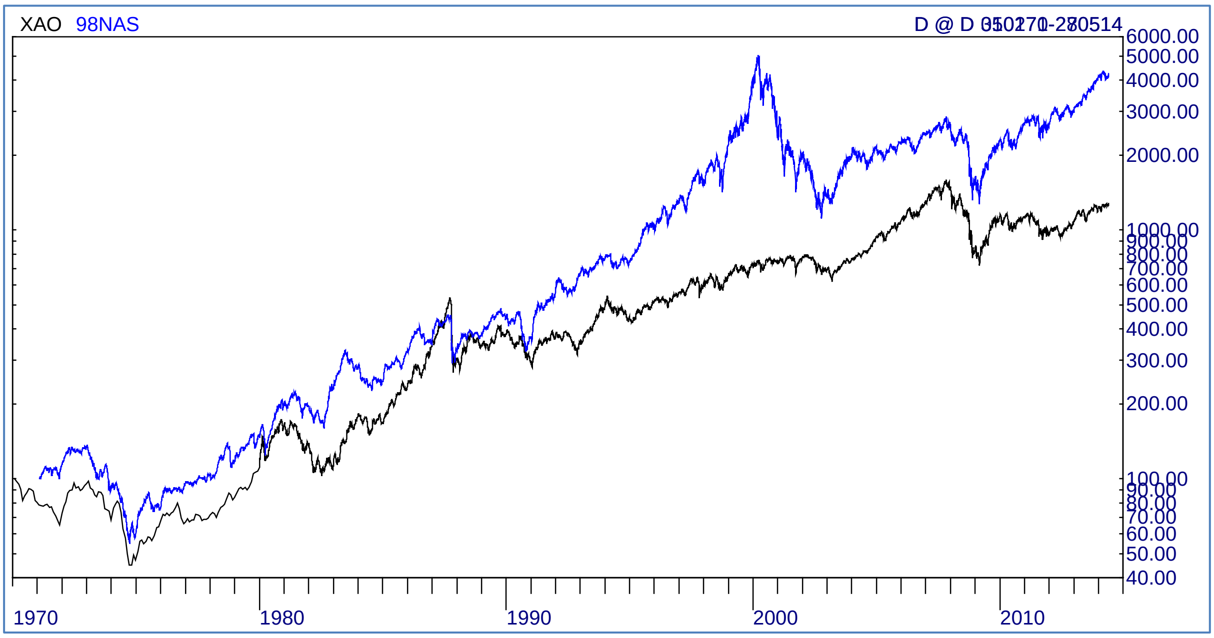
Thus, it seems to me that what is happening now has happened before. From 1982 to 2000, the US market went up for 18 years. It has seen such long upward advances before. It pays to be aware of history as a guide to what could happen.

Next, I have done a similar comparison of the ASX All Ordinaries index and the S&P 500 index, both rebased to 100 in 1900:



Again, the ASX All Ordinaries index is the black line and the S&P 500 is the blue line. The general picture is, not surprisingly, quite similar.

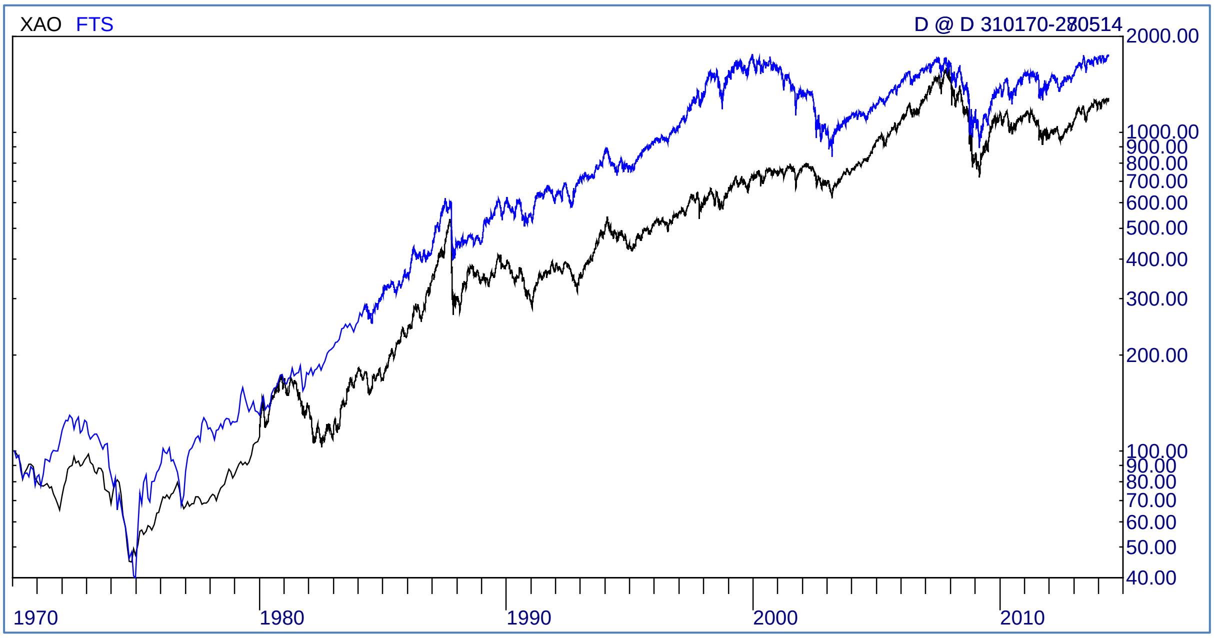
The other important index in the US is the NASDAQ Composite index. I only have data back to 1970, so have done a comparison of the All Ordinaries Index and the NASDAQ Composite index, both rebased to 100 in 1970:



Again, the ASX All Ordinaries index is the black line and the NASDAQ Composite index is the blue line.

These two markets were fairly similar until the early 1990's when the technology boom really took off on the NASDAQ market. We have not really caught up since.

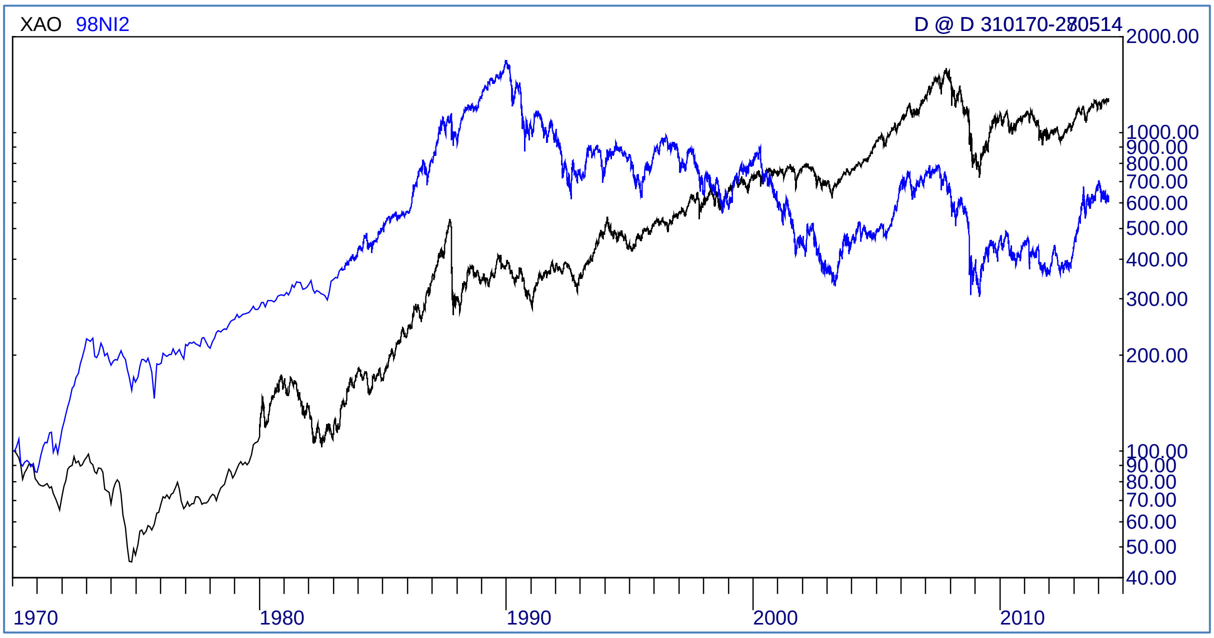
The other useful comparison is to the UK FTSE 100 index. I have that data only back to 1970, so I have done a comparison of the ASX All Ordinaries Index and the FTSE 100 index, both rebased to 100 in 1970:



Again, the ASX All Ordinaries index is the black line and the FTSE 100 index is the blue line.

Notice how both were at similar levels in 1981, after which we had a bear market and the UK market did not. Then we rose much faster through the 1980's to the 1987 "crash" which was much more severe in our market and we took years to recover, while the UK market powered ahead. We eventually almost caught them again in 2007, but our recovery has been far weaker with the UK now challenging the 2007 high.

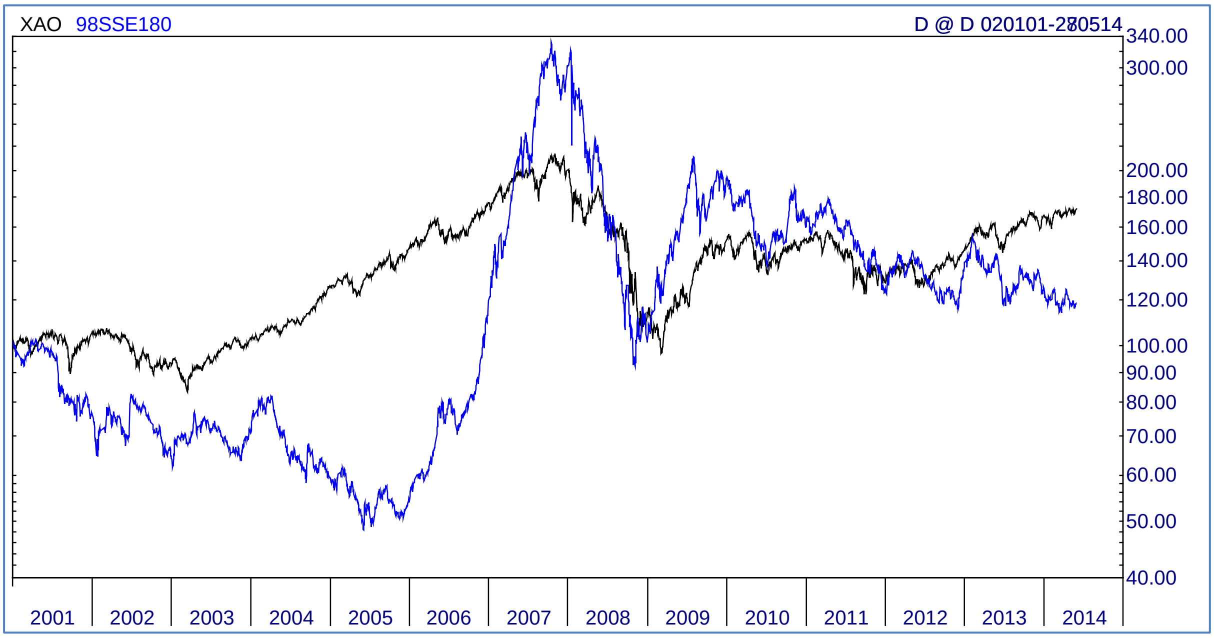
The other very interesting comparison is with the Japanese NIKKEI 225 index, which I also have only back to 1970, so I have done a comparison of the ASX All Ordinaries index and the NIKKEI 225 index, both rebased to 100 in 1970:



Again, the ASX All Ordinaries index is the black line and the NIKKEI 225 index is the blue line.

The Japanese market ran away from ours through to 1990, fell back to our market in 2000, but has fallen behind ever since.

Finally, I have done a comparison to the mainland Chinese market in Shanghai. I have the Shanghai All Ordinaries index only from 2001, so I have done a comparison of the ASX All Ordinaries index and the Shanghai All Ordinaries index, both rebased to 100 in 2001:



Again, the ASX All Ordinaries index is the black line and the Shanghai All Ordinaries index is the blue line.

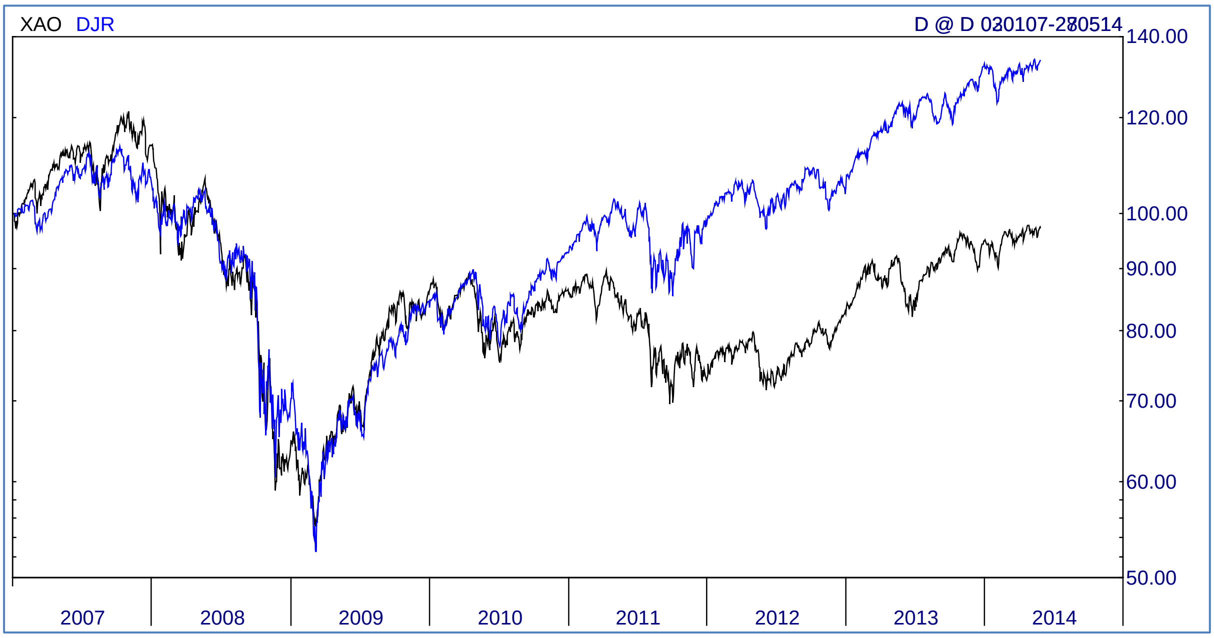
Through to 2007, both markets diverged greatly. Then they came together in 2008-09. China's initial recovery was stronger from 2009, but they have drifted lower than our market since and are tending to diverge somewhat.

What these long term comparisons show is just how differently the various markets, that could be seen as important on a global basis and which are to a greater or lesser extent our trading partners, can follow quite different paths.

In a newsletter a year or so back I showed that the Australian market tended to react in the same direction to the US market about 70% of the time on a daily basis. However, it is easy to confuse what is happening in the short-term daily picture with the overall swings in the markets which can take quite different paths for significant periods of time.

One of the benefits of starting with as long-term a picture as possible is how it shows the different paths so clearly.

Now back to the proposition that the US market is doing far better than the Australian market since the top in 2007. This is true. By rebasing the ASX All Ordinaries index and the Dow Jones Industrial Average to 100 at the start of 2007, we get this picture:



As previously, the black line is the ASX All Ordinaries index and the blue line is the Dow Jones Industrial Average.

Clearly, on this starting point, they were similar at the top in 2007, very close at the bottom in 2009 and through to 2010, but since then the US has indeed beaten our market.

Now, to demonstrate how almost anything can be proved by changing the starting point, by rebasing the ASX All Ordinaries index and the Dow Jones Industrial Average to 100 at the start of 2003, we get this picture, to which I alluded earlier:

As previously, the black line is the ASX All Ordinaries index and the blue line is the Dow Jones Industrial Average.

So, from that starting point, our market rose far more strongly to the 2007 top. Then both fell in 2008-09. The initial recoveries were similar. Then our market went sideways before falling to match the US market in 2011. Since then, they have tracked fairly much in tandem, with the US market marginally stronger. Really there is not much in it over the period of this chart.

What all this shows is that although they may seem to move together in the very short term, markets take different paths over larger bull-bear market cycles. We must always be very careful if we draw conclusions from short term observations, without putting them into context over full bull-bear market cycles. While markets can diverge significantly for long periods, they often come close

This article was written in May 2014, but the principle applies over any period.

To read more of my work

Previous Articles

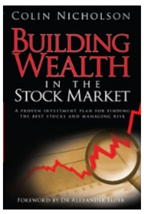
All my previous articles for the free website are now on the *Educational Articles* page on the Free Resources menu. They are now listed alphabetically by title with a brief description of their contents.

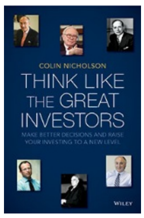
Books

I have written two books, both of which are available for purchase from the ***Buy Books*** menu:

BUILDING WEALTH IN THE STOCK MARKET – A proven investment plan for finding the best stocks and managing risk

THINK LIKE THE GREAT INVESTORS – Make better decisions and raise your investing to a new level





Members Website

Follow my thinking on my own investments, disclosure of my portfolio as I go, weekly market scans, weekly market charts and analysis plus many more articles about investing and analysis

I am one of the very few investors who publishes their investment results each year, which I have done since 2000 – see the Investment Returns page on the About Colin menu on the website