



## INVESTING IN INTERESTING TIMES

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There is a Chinese curse that begins with the words “May you live in interesting times...”. It is believed that this means that strength of character comes from living in turbulent times, not when life is always easy.

The last year or so can certainly account for “interesting times” with the share market even less predictable than usual, inflation up, interest rates diving to an amazing low then rising, constant uncertainty about oil prices and now, a recovery seemingly based on Chinese demand. Residential property may be expensive, but there’s huge unmet demand for housing from both owner-occupiers and renters. How is the average investor supposed to find their way through such a rocky investment landscape?

There are many different approaches to dealing with volatility, so what are the options?

### **Brace yourself**

Last year, most superannuation fund members panicked when they read their statements, thinking much of their super had disappeared. However, a year or two of poor returns has to be put into perspective.

The five years prior to the ‘Global Financial Crisis’ were very good for investors, but one of the unavoidable facts of life is that in seeking higher returns over the long term, there will be periods when the portfolios fall in value.

While this crisis was reported as being “unprecedented”, nobody knows what this recovery will be like either. The most important point to remember is that by being prepared for a poor return, and focusing on your long-term goals, you will be less likely to overreact and make a hasty investment decision.

### **Sit tight**

The best option for most long-term investors is to sit tight and wait for markets to recover. Although most commentators suggest that the worst has passed for current downturn, some suggest it could persist for a couple of years, so it may test the patience of many.

In the meantime, remember that the long-term income an investment generates is far more important than short-term price fluctuations. The dividend yield on many shares is currently quite high, so they remain attractive investments.

It is impossible to anticipate when markets might fully recover but when they do they can move quickly. It’s usually the patient investors who stick with their long-term strategies who do the best.

### **Weight for age**

One school of thought is that an investor’s weighting towards higher risk assets, such as shares and property, should decline as they grow older. After all, retirees are unable to add to their capital base, so in a market downturn they are often the ones who suffer the most.

Age-based investing may be worth considering by people who start early and accumulate a large asset base that, even if invested conservatively, will see them comfortably through their

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retirement years. This may be particularly appropriate for investors who are uncomfortable with any degree of volatility. However, even if you do want to take a more conservative approach to investment in retirement, now may not be the best time to be making the switch.

There are a couple of arguments against age-based investing. To begin with, most people retiring today will want their money to last for at least 15 years, and maybe as long as 30 or 40 years. These are long investment horizons, quite compatible with maintaining a growth strategy. It is also important to note that most retirees don't have a high level of savings, and that maintaining some growth assets in a portfolio can significantly extend the length of time that an investor's money will last.

### **Dollar cost averaging**

Dollar cost averaging is the process of making regular purchases of investment assets over an extended period. It can boost returns in volatile markets, as more shares or units are purchased during periods of price weakness. If you have regular contributions going into superannuation or a savings plan, you're already taking advantage of dollar cost averaging.

### **Build up cash, reduce debt**

If possible, build up a cash reserve. Reducing debt is also a prudent way of reducing risk.

### **Review and rebalance**

Clearly, investors have a lot to think about during volatile times. Your financial planner will help you review your portfolio and remind you of your original investment strategy.

If you're worried or unsure, don't hesitate to call us. We are here for you in good and not so good times.

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