



# It's now or never... Investing in uncertain times

## Investing in volatile times

### Frequently Asked Questions

**Question:** With the share-market falling, should I be selling out and moving my investment funds (or what is left of them) to more secure investments?

**Answer:** By selling out of your investments because they have gone down in value, you will crystallise your losses. A loss is currently only a paper loss (you still own the same number of shares) however selling investments will turn this into an actual loss. Unless your circumstances have changed and you actually need to sell investments to release capital for other purposes, then it may be prudent not to sell whilst prices are depressed. Look at it from a different perspective. If you believe your home was worth \$400,000 a year ago, but your local real estate agent has told that in the current market it is only worth \$350,000, would you be selling it? If you needed the money you may have to accept a lower price but if you could afford to hold on, you may well keep the house until markets improve. Investments, including shares or managed funds, work in the same way.

**Question:** When will the current downturn in the share-market end?

**Answer:** If we knew the answer to that question, we would be very rich. Unfortunately we don't know when the current downturn will end and when the share-market will improve. Looking back the past hundred years or so, the share-market has gone through a number of cycles. In every case, where the market has fallen it has gone on to achieve new heights in the months and years that follow. There is nothing to suggest that this cycle will be any different. Patience is a virtue!

**Question:** My savings are being eroded as a result of the fall in the share-market, how will this affect my retirement plans?

**Answer:** As a result of the current downturn in the markets, many investors have seen the value of their superannuation fall. This, in turn may affect the level of income they can draw in the form of a superannuation pension. Provided the investor remains invested and doesn't crystallise their losses by selling down their investments, then they should recover in time. In some cases, and where flexibility exists, some people may decide to defer retirement until investment markets improve, or may decided to work part-time for a while in order for their retirement savings to recover. Many people suggest that when we reach retirement age we should move our retirement savings into "safe" investments such as cash and fixed interest type investments. This may be appropriate for some investors but remember, a 65 year old is a long-term investor. Assuming they are in good health, they are

looking at a life expectancy of 20 years or more. Long-term investors need to consider having some exposure to growth assets such as share and property. The balance between these asset classes will depend on the investors overall appetite for risk and whilst they may wish to reduce their expose to market volatility, some exposure to growth asset may be a prudent strategy.

**Question:** I have some money available to invest. Where should I be investing now?

**Answer:** The Australian share-market has fallen since it high point in November 2007. For those with funds available to invest, now may be a good time to consider investing into the share-market, buying shares in good quality companies or investing in robust managed funds that invest in Australian shares. Rather than investing all available funds in the market in one go, consider "dollar cost averaging". That is invest a set amount on a regular basis (such as once each month) over a period of time. This way you average the price at which you acquire shares or units in managed funds.

**Questions:** The media has been placing a lot of focus on the effect of fees and charges on my investment returns. Should I be arranging my own investments?

**Answer:** When markets are performing poorly, the level of fees and charges that apply to investments always come under attention. When investing in a managed fund for example, the investor is accessing professional investment management services. In addition, the fund manager is generally providing a range of administrative services associated with managing your investment. Be aware of the fees you are paying by all means, understand the services that you should be receiving in return for the fees you are paying, and ensure you get value for money. A good financial planner who provides quality on-going service can be worth their "weight in gold". Research has shown that very few people who decide to do it themselves can consistently outperform a good quality fund manager.

**Question:** I have a self-managed super fund that is holding cash. Should I just remain invested in cash until the markets improve?

**Answer:** Have a look at the question before the last. It applies equally to self-managed superannuation funds. Despite this, whenever you invest on behalf of your self-managed super fund, ensure that the investments you make are consistent with the funds written "investment strategy".