ON BALANCE

Keeping your head when markets are moving

Most people wouldn't sell their house if they read that property prices may be falling. They certainly wouldn't have their house valued every day. However, when it comes to shares, some people panic at the first sign of a downturn and begin offloading their holdings. While financial commentators, journalists and news writers monitor market movements daily, investors saving for retirement or building wealth need to take a more balanced view.

Not investing is risky too

Selling your holdings during a period of poor performance may protect your net worth in the short term – but it may stall or hamper your longer-term wealth building plans if the markets turn up while you remain on the sidelines.

Don't sweat the small stuff

Instead of worrying about daily movements in the market, a much wiser approach is to invest according to your investment horizon. For example, if you are investing for a retirement that is 30 years away, poor daily, monthly or even yearly performance is less important.

It's more important for long-term investors to appropriately establish their goals and objectives, and structure a suitable investment portfolio to reach them. A financial adviser can help you establish the right mix of investments for your situation and regularly review this.

Time is on your side

Despite their reputation as a 'risky investment', historical data shows that the greater the time period, the lower the chance of losing money on sharemarket investments. Consider the example below. While 23.1% of Australian sharemarket investors lost money after a year, all were better off after five and ten year periods.

ONE YEAR PERIOD	
% of one year periods where investor is in Australian market	
Made money	**Lost money**
76.9%	23.1%

FIVE YEAR PERIOD	
% of five year periods where investor is in Australian market	
Made money	**Lost money**
96%	4%

TEN YEAR PERIOD	
% of ten year periods where investor is in Australian market	
Made money	**Lost money**
100%	0%

Source: Advance Asset Management. Benchmark based on an annualised return of the S&P/ASX 200 Accumulation Index (the S&P/ASX 200 Accumulation Index was introduced in March 2000, prior to this the ASX All Ordinaries Accumulation Index has been used and rebased as a proxy for the index values) over 1, 5 and 10 years on all eligible time periods to 30 June 2012.

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A diversified approach

One of the most reliable ways to maximise your long-term returns and reduce the risk of losing money is through diversification.

By taking a diversified approach to your investments – spreading your money across asset classes, regions, sectors and investment managers – you may be able to achieve superior risk adjusted returns.

By spreading your investment across different sources of return your chances of having at least some exposure to the best performing assets is increased. Just as importantly, the impact of a loss from any of one of your investments is reduced.

Intelligent diversification has another advantage – by spreading your money across different investments in line with a long-term plan instead of buying and selling based on short-term market moves. By sticking to a balanced approach over the long term you not only reduce your trading costs, you also avoid the temptation of constantly trying to beat the market – a job even highly trained professionals find difficult to do.

Don't be distracted by day-to-day market 'hype'. Talk to your financial adviser about how you can take a diversified approach to investment and maximise your wealth over the long term.

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