

Pay Dirt – Reaping the Rewards of Recession

When it comes to share markets, you can be sure of three things – they will rise, they will fall and human emotion will always be a driver of market direction. The psychology of the mind and its influence on investment decisions can be difficult to ignore. Worse still, it can often lose you money, due to panic selling. This Informer reinforces the futility of trying to second-guess the market and why good things come to those who wait.

Famous last words

Winston Churchill once said, “The farther backward you can look, the farther forward you are likely to see. It is always wise to look ahead, but difficult to look further than you can see.”

In terms of share market performance and investor behaviour, no truer words were spoken.

Historically, share markets are cyclical by nature. They always rise after major falls and always fall after periods of growth.

However, the human psyche often struggles to see the bigger picture, focusing instead on the here and now. The 2008 downturn is a perfect case in point.

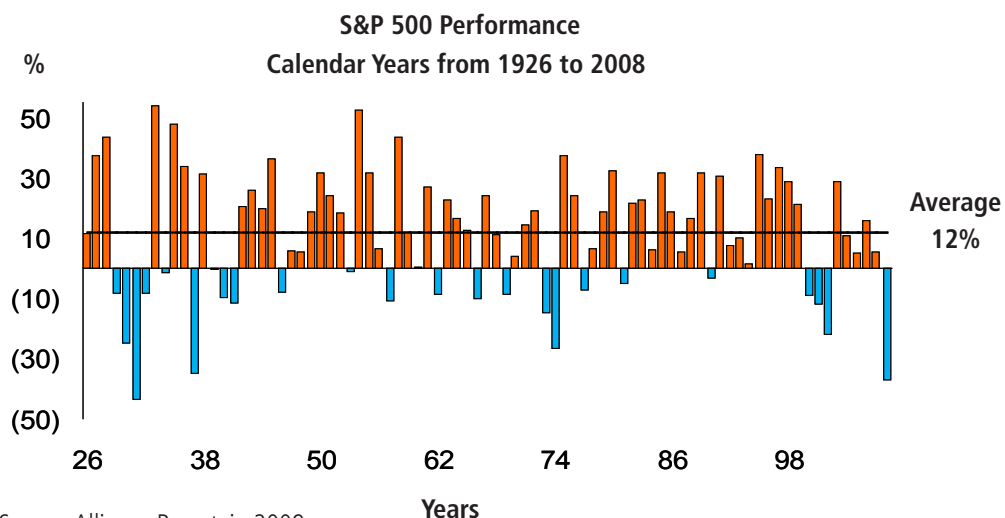
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The market declines last year came hard and fast, causing major concern among pre-retirees, worried about their ability to recoup losses. Twelve months on and the market has rebounded – just as hard and just as fast. Losses have been partly recovered and account balances are on the up again.

In short, while those in retirement have good reason to complain, for the majority of investors, last year’s downturn will actually work in their favour – provided they remember three simple rules of investing.

1. Super is a long term investment

The fact that super is a long term (ie a period of 10 years or more) investment almost predisposes you to focus on long term performance. This is perfectly illustrated in the following graph. While short term performance has been highly volatile, over the past 80 years, there have been more rises than falls and the overall average return is positive.



2. Stick to your investment strategy

Panic switching based on daily market movements is likely to lose you money. Remember that your financial goals for retirement depend on your chosen investment strategy. Knee-jerk reactions can eliminate years of positive returns, which defeats your objective.

In any event, as the following graph shows, downturns such as those in 2008, are quite rare. The only times prior to 2008 where annual returns were as low as in 1931 and 1937.

No. of Positive Years: 59 (71%)

No. of Negative Years: 24 (29%)

