Shock, horror, invest!

- Noel Whittaker
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THE stock market is having one of its regular down periods and, of course, all sections of the media are having a field day.

There is nothing like a sensational headline to attract an audience and while the latest gyrations in the market may make for good conversation, investment veterans know that the present behaviour of the market is as predictable as traffic jams in peak hour.

Naturally, this has led to a spate of emails from readers asking whether they should cash in all their share-based investments and place the money in the bank while they wait for the upturn.

While this strategy may give peace of mind in the short term, the problem is that nobody is able to consistently forecast what markets will do in the future. To make it more difficult it is also a fact of life that markets tend to bounce back quickly.

I believe a better option is to agree on a diversified portfolio and decide how much you wish to keep in each of the three asset classes cash, property and shares. But you should keep in mind that property and shares should never be bought unless you have at least a 7-10 year time frame in mind. This will give you time to ride out the inevitable downturns.

The gloomy headlines are depressing, but history shows that it is common for the stock market to have up to four negative years in every 10, meaning there are at least six good ones every decade.

You also need to appreciate the difference between traders and investors.

Traders try to profit by picking the short-term movements in the market and buying and selling accordingly. But investors and that means most people take the long-term view. They ride out the falls and enjoy the increases over time.

Unfortunately, the average Aussie has a strange approach to investment. When a stock market boom has become well established, they love to jump in and buy up big because they believe the boom is never going to end. When the market has one of its inevitable downturns (as it is doing now) they stay away in droves, or worse still, sell out at the worst possible time. All this does is turn a paper loss into a real one.

A market slump can be particularly scary if you have taken out a margin loan to invest in shares because one of the requirements of that type of loan is that it does not exceed a fixed percentage of your portfolio.

For example, you may have a $100,000 portfolio with a $55,000 debt, and a requirement that the loan is never more than 60 per cent of the value of your portfolio. Your bank would call you if your portfolio fell to $80,000 because the largest loan they would allow at this level would be $48,000.

The last thing you want to do is dump your valuable shares without giving them time to recover, so you should do everything in your power to hang on to your portfolio and add to it if possible.

You could use any spare cash to top-up your portfolio and get yourself back to within the agreed limits, or offer extra shares as security. If you own property you could take out an interest-only home-equity loan to pay out your margin loan. This would free you from the possibility of margin calls in the future.

So, don't be concerned about the present turbulence; hang in there and think of adding to your portfolio if you can.

Don't forget there is now more than a trillion dollars in superannuation and employers are contributing 9 per cent of payroll all the time. Most of this money will find its way into the share market and this will provide tremendous buying pressure year in, year out. Over the long term, share-based investments will still give great returns.

Let's finish with the words of investment guru Warren Buffet: "The share market is the transfer of wealth from the impatient to the patient. Inexperienced investors regard a market fall as a time to sell; experienced investors see it as a time to buy."