

Sell or hold?

Which is the smart option in uncertain markets?

Nine key principles for smart investing

Different investment markets perform differently from time to time. It's not surprising that when markets are volatile, many people wonder whether to hold onto their current investments - or sell and put their money elsewhere.

If you've been considering your Investment Options for the future, this guide is essential reading. It contains eight key principles of investing, as recommended by financial experts. In uncertain times, following these principles can help you choose the smartest option for you.

Nine Key Principles for Smart Investing

1. Buy when things are cheap and sell when they're expensive

It seems like an obvious sentiment but investors tend to do the opposite. When the news is good and investments are expensive, they buy. When the news is not so good and investments are falling in value, they sell.

Look at what can happen in property, for example. Despite high vacancy rates and surging property prices, some investors pull out of well-priced share investments to buy over-priced property investments.

Lesson 1

The worst time to sell is often when prices are falling. In fact, many would say it's the best time to buy.

2. The share market bounces back

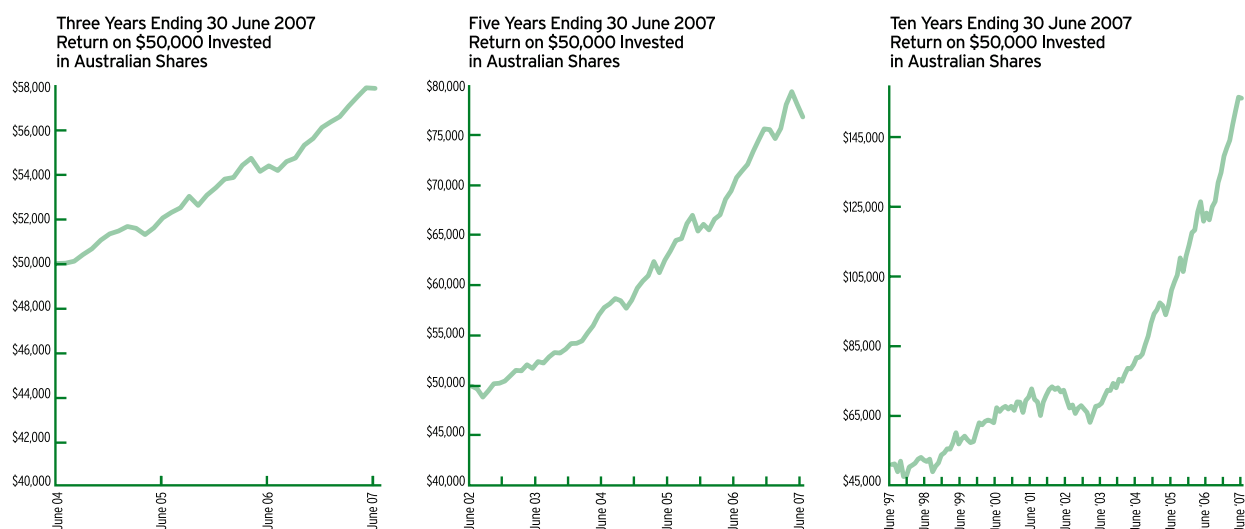
History shows that time smooths out short-term volatility in markets. The following graphs show that what may look like a large fall may often be just a short-term 'blip'.

If you leave the share market when it experiences a downturn, you could risk missing out when it bounces back. In addition to this, there may be costs associated with leaving the market, such as brokerage (for direct share investments) or exit fees (managed funds).

Lesson 2

Don't overreact when markets are under-performing. Keep a long-term perspective.

The Australian Sharemarket



Past performance should not be taken as an indication of future performance.

3. Time in the market, versus timing the market

According to JPMorgan Asset Management, if you had invested in Britain's FTSE All Share index for the past five years, you would have seen your investments rise by more than 63%.

Missing out on the best 10 days of performance, would have slashed that to 40% and, if you missed out on the best 40 days, you would have made just 3.9% - less than you can get on risk-free bank or building society deposits.

If you had invested in America, your position would be even worse. The S&P 500 would have given you more than 56% over five years.

Similarly, missing out on the best 10 days performance would have reduced that to 11.6%. If you miss the best 40 days you would be kicking yourself, having lost more than 39% of your investment - that would mean a \$1000 investment at the beginning of the five years would now be worth just \$610, ignoring currency fluctuations.

As for Australia, during the past 10 years, the All Ords Index would have provided total returns, including dividends, of 258.5%. But if you missed the best 10 days, the return would fall to 172.4% - a loss of exactly a third of your potential profits from just 10 days trading.

Lesson 3

Timing the market, as any good investor will tell you, is a mugs game.

4. Don't chase last year's best asset class

In the investment, ideally you want to buy at the bottom and sell at the top. The problem is that no one can predict what will happen in the future. One of the worst mistakes investors can make is chasing last year's best performing asset classes. This is because you may be selling out of an asset class when the price is about to rise and buying into last year's best performing asset class when its price may be falling.

It's very rare for an investment sector to perform consistently all of the time. For example, in 1998 and 1999, the best performing sector was international shares (32.3%** and 17.2%** respectively). Just one year later, in 2000, it was the worst performing sector (2.2%**). Unless you're Nostradamus, you'll never pick the best asset class every year. In other words, trying to move in and out of markets at optimal times is a bit like gambling with all the odds stacked against you. The smart investor diversifies their money to balance out the ups and downs of different asset classes. **MSCI World Index (ex-Australia) in \$AUD

Lesson 4

Trying to time the market is a huge gamble. Keep your investments diversified and aim to stick with them.

5. Don't chase last year's best fund manager

Like different asset classes, no single fund manager performs consistently every year. Trying to chase the best performing fund manager is a lot like trying to time the market. Some fund managers charge entry and exit fees, so moving your investment from fund manager to fund manager can also be an expensive decision.

Lesson 5

It pays to take a longer-term view and avoid chasing the year's best performing fund manager.

6. Don't follow the pack

In investing, following the pack is generally not the best strategy. Remember a few years ago when dinner table conversations centred around everyone's share portfolio? Well, today, many of those same conversations focus on property. If everyone's talking about a particular investment, then you can be sure that popularity has made the investment expensive - if not over-priced.

Lesson 6

Don't assume the pack knows what it's doing. Smart investors do their own research and seek advice that is relevant to them, so that they buy well-priced investments and avoid over-priced ones.

7. Cash isn't as straightforward as you might think

When the global economy is uncertain, people can be tempted to put their investments into cash. Although all investment portfolios should include some cash for diversification, too much cash can be a mistake. Returns on cash have been at record lows for years and can easily be eroded by inflation and tax. History shows that term deposits tend to perform poorly against the sharemarket over the longer term.

Plus, if you opt for term deposits and bonds, your money may be locked away for a period of time, leaving you unable to act when things pick up again.

Usually, the better strategy is to diversify your investments to include some cash as well as fixed interest, property and shares. You can spread your money by investing directly in each asset class or through managed funds which diversify your money for you.

Lesson 7

Don't think cash is always the 'safe' option. Diversification is usually the safest investment strategy.

8. Knowing when to sell or hold requires time and expertise

To meet your investment goals, you need to know:

- a. how to weight your portfolio towards different asset classes,
- b. which investments to select in each class,
- c. when to buy, sell or hold.

To do this requires intimate knowledge of the market, detailed analysis and interpretation of all the raw data, and an understanding of what proportion should be invested in each asset class. It also requires an enormous amount of time to select investments and monitor their progress.

Professional investment managers do this for a living. They charge a fee for the service but, in return, they make it their full-time job to select investments within each class as well as monitoring the performance of all the asset classes and keep their fingers on the market pulse.

Lesson 8

Unless you have the experience, confidence and time to manage your own investments, it makes a lot of sense to leave the buy/sell/hold decision to professional managers.

9. Only sell when you need the money

As a guide, many experts will tell you to sell if you need the money - and to hold if you don't. Investment losses only become losses when you sell. If you hold, in many cases, your investments will rise again and you can forget that they ever went down.

Lesson 9

If you don't need the money, don't react too quickly and sell.



ClearView Retirement Solutions
GPO Box 3382 - Reply Paid
Sydney NSW 2001.

Phone: 132 976
www.clearview.com.au

Call 132 976 to discuss whether you could benefit from
meeting with a ClearView Financial Adviser or visit
www.clearview.com.au for more information

ClearView Financial Advisers are representatives of ClearView Financial Management Limited ABN 99 067 544 549, AFS Licence No. 227677. Any advice contained is general advice only and does not take into account your individual objectives, financial situation or needs ('your personal circumstances'). Before acting on it you should consider the appropriateness of it taking into account your personal circumstances.

Past performance should not be taken as an indication of future performance.

CLV 0106 02/08

Don't just make do. Talk to ClearView. Call 132 976.