

THE STAYERS LOOK LIKE BEING THE WINNERS (AGAIN)

MOST OF US HAVE heard the saying 'it's time in the market, not timing the market that's important'. During the turbulent times of 2008 and early 2009, however, it was difficult to believe.

When the global share markets (as measured by the Morgan Stanley Capital Index) fell by 54% from the peak in 2007 to their nadir this year, everything looked, sounded and felt extremely gloomy. We didn't know which overseas bank was going to fail next and unprecedented emergency measures were being taken by governments around the world.

Our instincts were to cash up and run for the bank – and many investors did just that. Those who managed to time the market, selling all their shares at the end of September 2008 as investor sentiment began to crumble, did well if they bought into the market again in March 2009. The ability to pick the top and then the bottom of the market took extraordinary investment acumen... or two strokes of extreme good fortune!

Of course, picking the right time requires precise timing. Sell a month or two early or late and the consequences can be dire. For example, investors who stayed out of the market from the lows in March this year would have missed the significant and speedy rebound of 55% in the MSCI by the end of September.

Compare this with the investor who chose to sit tight, and stayed fully invested throughout this tumultuous time. Had they invested only in shares (a high risk/high growth investment strategy), they would have suffered the initial 38% loss but then would have recovered

substantially, with only a small loss of 4% six months later, at the end of September. An untimely exit from a depressed market would have been costly.

Of course, for most investors, the actual losses and gains are less pronounced because their investment portfolios are spread across a diverse mix of investment types, and are not solely in shares.

The performance of the New Zealand Superannuation Fund (often called the 'Cullen Fund') is an example of a diversified investment portfolio with a long-term horizon. This fund recently reported that, to mid-September 2009, it had grown to its highest level at \$15.3 billion from a low of \$11.2 billion in February this year, after recovering more than 20% in market performance and receiving only \$250 million in additional Government contributions. This shows that discipline is necessary for a 'buy and hold' investment strategy to work over time.

This is not to say that investment strategies should not change from time to time, but in the main they should be formed in response to changes in the investor's outlook and financial needs.

So, unless we have fortune clearly on our side, most of us are likely to benefit from taking good advice in the construction of our investment portfolio and stay the course through the swings and roundabouts of the markets.

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