

10th of March 2009

I see and speak with many people from all walks of life about their investments each day and the number one thing they say to me is:

My super will be worth nothing if things continue!

With Due Respect - This is Rubbish!!

I would like to assure your listeners that for the vast majority of people this is absolutely untrue. Most people have highly diversified portfolio of investments that make up their super account and for these investments to be worth nothing would mean every company in the world and every property in the world would have to be worthless. I don't think that even the biggest doomsayer could stand up and say everything in the world will be worthless in the future.

People who are not following sound investment principles could lose everything but they would have to adopt very risky investment strategies and this situation would be very rare.

So what are sound investment principles?

Seek sound advice

In these tough economic times it is even more important that people seek professional advice. There are tremendous opportunities out there for smart or well informed people. Knowing what you should be doing and having a well structured financial plan will give you the clarity you need to make the right decisions at this time.

Unfortunately we see many people who make the wrong decisions or are ill advised and my greatest fear is the cost to them and their family is one that is so significant that they may never recover the lost ground.

Stick to your investment strategy

Many people who have set out on an investment plan recently are just throwing in the towel. It is crazy to judge a long term investment (5-7 years minimum) after only 1 or 2 years. You must stay the course and you will be rewarded in the long run.

Many people who are nearing retirement say they are concerned because they will need their funds in a short time. It is important to remember that we should be investing for the rest of our lives not just until retirement. One of the greatest risks facing people who do not invest in quality growth assets for the long term (life) is longevity risk. That is the risk you will outlive your money. With inflation at 3.7% and cash at 3.25% and dropping further, cash or fixed interest investments are not the long term answers.

You must always keep your emotions in check and having a good financial coach to help you along the way can assist.

Diversification

The old don't put all of your eggs in the one basket theory. We have all heard this before and it still holds true. The amount of times I hear of people who have invested all of their life savings with one company and have then lost the lot ala Westpoint, Bridgecorp, Fincorp etc. is frightening. Yet every day we hear of more people who have done this and lost the lot.

We use managed funds quite a lot because they offer very good levels of diversification, are professionally managed and a wide range of them can be accessed through administration platforms these days. This is a sound way to ensure you do not lose everything.

If it sounds too good to be true it is

Watch out for charlatans. I don't need to say any more.

Don't become obsessed with negative media reports

It is easy to misinterpret information. Yes the share market has been down. We now hear doom and gloom for the economy and how we are in a recession possibly.

Recessions are not all bad news though. With unemployment forecast to reach 7% this still means 93% of people will still be in their jobs. Many goods and services become cheaper at these times also. Interest rates are at historical lows, house prices have dropped, shares are offering the biggest discounts in our living memory and many industries, trades and professions drop their prices to attract more business.

Share markets are forward looking and tend to respond positively well before the economy does. When we hear in the media that the economy is suffering and will suffer further the market has already factored this in to the share prices. We will see a recovery in the share market before we see a reported recovery in our economy.

Most Importantly Remain Positive

The most critical factor is people should remain positive. Take charge of your life and change the things you can and don't stress about the things you can't!

Small changes in the right area will make a big difference in the future.

Make yourself one of the employable 90% whichever way you can. Even when there is high unemployment employers seek people who are dedicated workers.

Our duty at these times

I see a huge responsibility for financial advisers at this point in time. We act not only as financial coaches but quite often as life coaches, marriage counsellors and confidants. Sound advice and strategy coupled with clarity of vision is vital in these times for everyone and this can be achieved by obtaining sound professional advice.

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