



BALANCED INVESTMENT STRATEGIES

FINANCE ♦ BALANCE ♦ LIFE

Investor Education Series

Reaching Your Long-Term Goals

Balanced Investment Strategies

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What You Can Do

The biggest obstacle to reaching our long-term investment goals often is not the market itself, but our own behaviour.

Common mistakes include failing to diversify, overlooking the influence of the costs of trading, ducking in and out of the market and getting distracted by daily headlines.

The fact is that as fallible human beings we tend to over-rate our own abilities and imagine that we can see things that others can't. In an extremely competitive arena such as the financial markets, this can be ruinous.

It is in the nature of markets to go up and down. You can't control that. But employing a structured and disciplined approach frees you up to focus on things you can control.

This includes staying diversified, keeping costs low, being mindful of the tax impacts of investing and most of all keeping your nerve amid all the short-term noise from the markets and the media.

Timing Isn't Everything

It's very tempting to try to time the market, but very few people – not even the professionals – manage to profit from it consistently.

The fact is that large gains can come in quick, unpredictable surges.

Missing only a small fraction of days can defeat your timing strategy.

Selling out during difficult times just means you turn paper losses into real ones and miss the rebound when it comes.

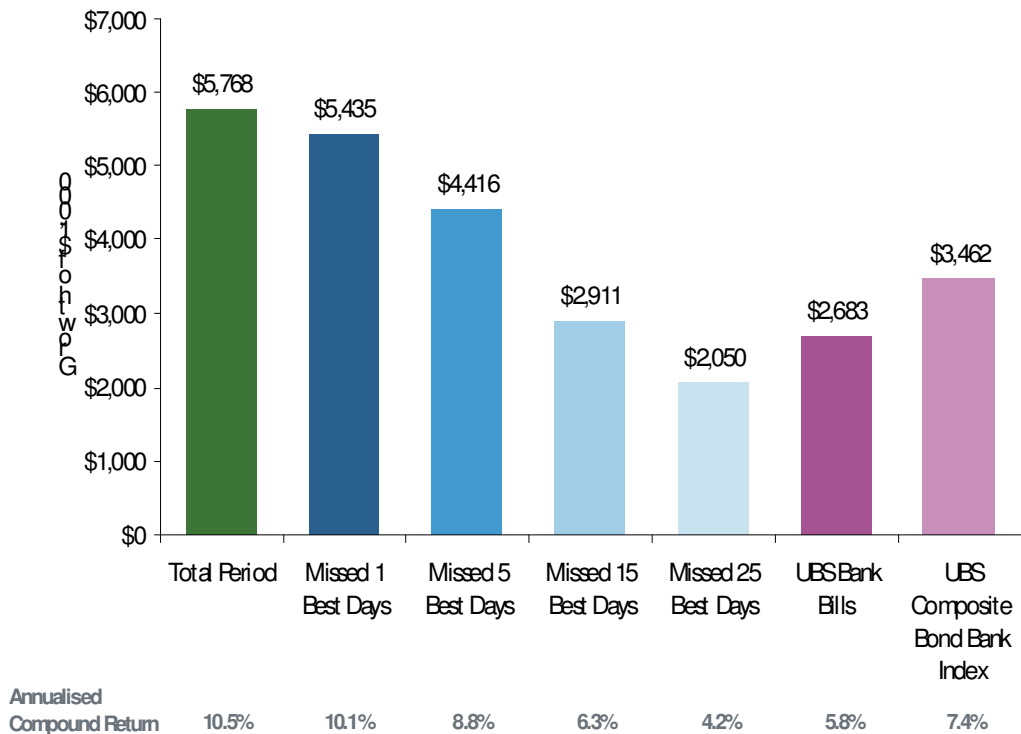
If you had invested \$1,000 in the Australian market in 1992 and left it there for 17 years you would have had a balance of \$5,768 by the end of December 2009, an annualised compound return of 10.5%.

But if you had missed the best five trading days, your balance would have been more than 20% lower. Missing the best 25 days – less than one month in 16 years – would have made an even more substantial difference.

Markets will face crises from time to time. But it is in their nature to quickly price in new information and move on. So unless you are a speculator it's important to take a long-term view and ride out the storm.

Market Timing is Risky

S&P/ASX 300 Accumulation Index
June 1992-December 2009



All returns in Australian dollars.

Daily Standard & Poor's index data and monthly UBS data provided by Bloomberg.

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Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Trying to forecast which days or weeks will yield good or bad returns is a guessing game that can prove costly for investors.

Dealing With Noise

Another thing you can control is how you respond to the daily noise in the media and the markets.

A lot of people panic and sell in response to dramatic headlines about market 'meltdowns', only to see stocks rebound a few days later.

You can deal with these distractions by understanding that the media has an in-built short-term focus. Its tight production schedules create an insatiable demand for ever-changing content.

It needs drama, movement and colour to attract and keep audiences to sell to advertisers – its real clients. This all makes the media predisposed to stock specific stories and the notion that your future wealth depends on timing the market.

Keep up with the news by all means. But unless you're a speculator, much of this information is irrelevant to your portfolio.

Your agenda as a long-term investor is to structure a diversified portfolio around asset classes that deliver reliable returns.

Once you've done that, all you have to do is stay disciplined.



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