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Grow Your Money – Make your Dreams Real

You are an investor for your whole life - not just until you retire – so now is the time to learn as much as you can about investing, according to the Institute of Financial Advisers.

Lyn McMorran, President of the (IFA) says at the age of 65 the average person's life expectancy is still a further 20 years. Half the population will live even longer. "The greatest financial risk is running out of money because we live too long. The best time to buy shares is when the price is low, and it's important to start investing when young to benefit as much as possible from compounding income."

According to the IFA the key to successful long term investing is using time to grow your wealth, taking a long term strategic view and preserving the value in spending power while at the same time generating enough income to cover current living costs.

McMorran says the two key elements for generating long term wealth are the quality of your investments and diversification. "It's more important to have investments that 'survive' than to chase high rates of return. Liquidity is also very important and you need to make sure you can get your money back when you want to sell. A good example of this is the liquidity of government bonds relative to the lack of liquidity in finance company debentures."

However, it is essential not to put all your eggs in one basket and diversification across assets classes is the key to this. McMorran says, "Having an investment in five finance companies is not diversification. It is far less risky to invest in managed funds that are diversified than with a single investment in one company."

The Talmud, from around 1 200 B.C. – 500 A.D. said “Let every man divide his money into three parts, and invest, a third in land, a third in business, and a third let him keep in reserve.”

While that may not be possible, McMorran says your investment could be split into one third shares, one third bonds and one third cash if that is appropriate for your risk profile and time horizon.

“Other key elements of successful investing include dollar-cost averaging for regular savings and focusing on consistency rather than making emotional investment decisions,” says McMorran.

Dollar cost averaging is a method of investing where equal dollar amounts are invested at regular intervals (for example \$100 per month) in a particular investment. By doing this more shares are purchased when prices are low and fewer shares are purchased when prices are high. The purpose is to lower the average cost per share of the investment giving the investor a lower overall cost for the shares purchased over time.

“Focus on consistency by taking a long term view of the markets and avoiding fear and greed” - says McMorran.

Fear and greed drive the decisions of many personal investors, says McMorran. This causes them to buy at the top of the market when prices are high and sell at the bottom when prices are low. (See *graph below*) “The point of greatest risk is when markets are peaking and investors are euphoric as many will tend to invest more just before the market drops.”

Investments are all about risk and return. Cash is low risk, but will generate a low return. Shares are at the other end of the spectrum offering good returns over the long term, but with the commensurate risk. Property and fixed interest fall somewhere between the two.

According to the IFA, investors need to take advice in order to match their risk profile with the right mix of asset classes. For someone with a short term, low risk profile, the portfolio should have a higher proportion of cash and fixed interest together with a lower

proportion of property and shares. By comparison an investor with a long term, high risk profile should select a portfolio with a lower percentage of cash and fixed interest and a higher proportion of property and shares.

McMorran points out that taking advice from a professional adviser is very important as each investor has unique needs and goals and therefore benefit from having personalized financial advice.

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The Valuation Cycle

