



Secrets of Successful Investing. [15.07.08]

With all the turmoil in investment markets over recent months, many investors will be asking if they have done the right thing by investing in shares, property or managed funds. Let's revisit two fundamentals of investing.

Understand investing cycles

Investment markets move in cycles. They go up, they go down and they may run flat for a period of time. However, if we look at the long term performance of investment markets, they historically trended up.

The secret in successful investing is to adopt a "counter-cyclical" approach.

Traditionally, human nature tells us to invest when markets are going up and to sell when markets are in decline. However, we need to change our mindset and invest when everyone else is selling (we pick up bargains that way) and sell when everyone else is buying when markets are down and hold on to our investments for the long term.

Timing in, not timing

Long term investing doesn't involve chasing the latest investment fad. It involves making good sound investment decisions with the aid of professional advice and then sticking to the plan, not jumping in and out of the market every time there is a change.

Everybody has heard of the October 1987 stock market "crash". If you invest \$10,000 in the Australian All Ordinaries Index in June 1987, the value of the investment would have fallen to just under \$7,500 in October 1987. Many people were devastated by such a dramatic fall in the value of their investment and they sold out at the bottom of the market, thereby crystallising their loss.

If they remain invested, they would have recovered their loss in around two years. Had they continued to remain invested for the next 20 years (to June 2007), their original \$10,000 investment would have grown to in excess of \$80,000.

(Source: Professional Investment Services)
