Money: Investing

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Be alert, not alarmed in choppy markets

By **Kate Perry** August 07, 2008 10:00pm

- Keep a long-term focus when making investment decisions
- Do your research so you know what you're buying
- **Trading**: The latest market news and share prices

CHOPPY share market conditions have wiped billions of dollars off the value of the country's superannuation funds as well as private investors' nest eggs. Experts talk us through what you should be doing to protect your money, and how you can make more of it in tough market times.

Navigating the share market

The financial year just ended was the worst year for the Australian sharemarket in a quarter of a century. And the new financial year is proving just as choppy.

Elio D'Amato chief executive of share analysis company Lincoln Indicators says any market downturn provides good long-term buying opportunities.

"If you put up a sign in a shop saying 'bargains abound, 30 per cent discount', people would be buying."

When looking to snap up bargains he says you need to focus on quality businesses that are in good shape, are profitable, and are growing.

"Taking a long term approach doesn't mean buying garbage and holding it forever. Get quality stocks from the get-go," he says.

Mr D'Amato says areas to keep an eye on include the retail sector.

"It's an industry where companies have to cope with seasonal movements, so their business models are designed to cope with surviving downturns"

He says information technology (IT) is also worth a look, because new technology is becoming less and less of a discretionary spend for consumers now.

Banks have had a rough trot lately, and Mr D'Amato says if you're looking at investing in the finance sector at the moment you really need to keep in mind what kind of timeframe you're comfortable with.

"If you're looking at a 6-12 month horizon there's an argument that other investments could yield a better opportunity. If you're looking at a 5-10 year timeframe, then yes, you're likely to make money."

Joanna McCreery from Majella Wealth says people who are already in the market should stay there, while new investors keen to snap up bargains should proceed with caution.

"Don't plonk all your money in at once, spread it out over a few months to spread the risk."

For people in the market, rather than pulling out, she suggests maybe tinkering at the edges – making sure you're comfortable with the range of assets you have and the amount of risk you're exposed to.

Know your super

And what about the nest egg you have less control over? Working Australians don't have any choice about investing in super, but you do have a choice about which super fund you invest in.

For many workers super is a set-and-forget investment that they never think about.

Jeff Bresnahan, managing director of SuperRatings, says it's important to look at where your money is going and how your fund is holding up.

Most super funds took a battering in the past financial year. Average super funds put in their worst annual performance since superannuation became compulsory 16 years ago. Median balanced super fund values fell 6.4 per cent in the past financial year. But Mr Bresnahan says there's no need to panic.

He urges against changing funds based on one bad year, but says you should take a look at how your fund has performed over the past five years. As well as looking at how much money your fund has made – or lost – he says you also need to look at how much you're being charged in fees.

This will show up on your annual superannuation statement. "If you're paying more than 1.5 per cent of your account balance in fees then you're paying over the odds," he says.

Keep a long term focus

The very nature of retirement savings means that super is a long term investment. But what if you're on the brink of retirement? How scary should these volatile times be?

Marissa Yates, a senior financial planner with Commonwealth Bank of Australia.says if you're approaching retirement instead of panicking you should continue to take a long term approach to your savings.

"We're not just looking at the next 12 months, we're looking at your life expectancy in retirement, which could be 10 or 20 years," Ms Yates says.

So, don't think you should cash in your investment when you hit 65 and place it all in term deposits hoping to get a better return.

Ms Yates says working out an investment strategy based on lifestyle goals is the first step in protecting and building a nest egg.

"It's like building a house where the foundation is the advice or strategy, the walls are the product and the roof is where you invest your money. You can't build a house from the roof down and many investors use the investment as the basis of their reason and in volatile times, their investment decisions are generally based on emotion rather than the strategy and reasons why they are investing".

You need to be flexible enough to cope with lifestyle changes.

"Goals can change throughout retirement – that might be because of health related issues, or you might decide to downsize your home, changes in your income needs as well lifestyle choices like travel " she says.

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