



Wealth ByDesign

E-Flashes

CoreData's most recent quarterly survey, conducted during the two weeks to 5 December 2011, showed that investor sentiment in Australia had fallen to a seven-year low, below levels plumbed during the global financial crisis (GFC). The Investor Sentiment Index gauges the confidence of 843 people nationwide across demographics, ranging from those with no investments to high net worth individuals.

The latest result is the lowest since CoreData began measuring investor sentiment in 2005 and marks a seventh straight quarter of negative readings, which is evidence of the prolonged effect of the GFC on investor confidence levels across Australia. So don't feel alone if you are really feeling despair about your investments.

Of real interest is that the percentage of people who believed cash would perform **worse** than in the previous quarter came in at 29 per cent, outweighing the 25 per cent who believed it would perform better than it did in the third quarter. However, amazingly 27 per cent of respondents said they would look to rebalance their portfolios to cash this quarter.

This is so counter intuitive it beggars belief – so why is this the case you ask?

Because investors across the globe suffer from the same phenomenon – that is they often let emotions rather than logic drive their investment decisions and they mistakenly believe that preservation of capital is the most important goal. The reality is that preservation of future purchasing power is the real investment objective and the true extent of damage caused to investor portfolios from this prolonged bear market will not be seen until years ahead. That is, the current temporary negative impact of recent market volatility on investor portfolios pales into insignificance when compared with the damage that emotional investors will do to their portfolios as a result of their behavior if left unchecked. That is, moving their portfolios away from assets that have historically proven to grow on average over long periods of time throughout bear markets of various depth and duration, to assets that are actually forecasting a decline in return and at no time in history have offered any protection to investors against the ravaging effects on purchasing power of inflation.

As an example of this, quantitative evidence of just how much damage the average managed fund investor in the US incurs is readily available via a study updated each year by a research firm operating in Boston called Dalbar. Dalbar found that over the 20 year period to 31 December 2010, the average managed fund investor in the US achieved an average annual return of 3.8%. Over that same time period, the average return for the S&P 500 share market index was 9.1%.

Therefore the average US managed fund investor gave up 5.3% return on their investments each and every year for 20 years. This adds up to a serious amount of money over that timeframe.

The reason why they gave this up was their investor behavior – that is they let emotions guide their buying and selling decisions rather than their long term financial objectives. One of our primary roles as your adviser is to not let you be one of these people and that is why we have the tough conversations with you, time and time again. We know that if you stick to your long term

strategies and remain disciplined in your approach to your portfolio, you will be better off than if you try to time your exit and entry points into a market that no-one has ever been able to consistently predict since the dawn of time.

Life is about emotion though so we encourage you to use us as your sounding board and call us to talk about how you are feeling with respect to your investments – we are here for you to ensure you optimize your results throughout this and every other investment and economic cycle you will endure in life. We are in a period of extreme opportunities when we look at in the context of our life expectancy and our objective is to see you take those opportunities and profit in the long term from this current cycle.

Kind regards

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