Your Wealth Bulletin

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Hi,

This month we continue our look at market volatility and how smart investors prepare for the inevitable ups and downs of the sharemarket.

High Yielding Assets

Cash is King

The property boom has well passed, and now we find ourselves in the midst of a very strong sharemarket, particularly in Australia due to the insatiable Asian demand for our resources.

This has been terrific for our net worth 'on paper' as real estate prices have built our ability to drawdown on our household equity while the sharemarket performance has increased superannuation balances and investment portfolios.

However, history tells us that each asset class has it's own time in the sun.

This means that at some point in time, cash will reign supreme. The only problem with this, is that it is nigh on impossible to predict when this will be, and it is a far too expensive exercise to even attempt to time it.

Therefore, diversification remains your only 'free lunch' when it comes to reducing risk, and potentially enhancing returns.

The present issue for investors however is the unattractive yields that cash, bonds and fixed interest have offered in recent years.

Therefore, while we continue to recommend 'high quality' rated bonds and fixed interest offerings within portfolios, we also suggest that investors whom are seeking slightly higher returns may wish to consider

commercial property within the portfolio. This can be done via Listed Property Trusts, or even via Direct Ownership.

A minimum benchmark should be approximately a 7% yield. For those wishing to purchase a direct property, we can now obtain 70% financing for superannuation funds on a 7% yielding commercial property (ATO approved).

The advantage with commercial properties includes:

- higher rental income than residential property
- longer term lease agreements
- generally long term tenants
- lower outgoing costs than residential property
- potentially less maintenance than residential properties

For those considering retirement planning, the inclusion of commercial property into the superannuation portfolio can be highly beneficial. Post age 60 in retirement, the rental income is now tax free and no capital gains tax is payable if sold.

This asset class offers investors the opportunity to leverage their superannuation fund while ensuring that the asset remains attractive to hold onto during pension phase as the income stream is strong.

And while 'ideal' direct commercial properties can be hard to find, you can invest into Listed Property Trusts while you're searching. The reward over the long term may make the effort worthwhile.

Market Volatility - Part 2

Timing the Markets

Last month, we examined the history of market volatility and the impact this can have upon your portfolio.

Many investors attempt to avoid the 'negative' aspects of volatility via strategies such as timing when to get into the market, and when to pull out of the market.

Sharemarket publications, books, newsletters and newspapers are all sold to investors seeking the

answers of 'when to get in' and 'when to get out'.

However, the unfortunate news is that the evidence on efforts to successfully time the markets is compelling.

For example, one study of 100 pension funds and their experience with market timing found that while they all had engaged in at least some market timing, not a single one had improved its rate of return as a result.

Keep in mind that when you try to time the market you have to be right not just once, but twice. You have to sell at the right time and you also have to get back in at the right time.

Of the 324 quarters from 1926 through 2006 there were 27 quarters in which losses from the market exceeded 10 percent. Out of those 27 quarters, 16 were followed by quarters when the US market index (S&P 500) rose at least 5 percent.

There were also seven quarters when it rose at least 10 percent, four when it rose at least 20 percent, three when it rose at least 30 percent and two when it rose a massive 80 percent.

Thus, following quarters when the market fell at least 10 percent, the next quarter it rose at least 5 percent almost 60 percent of the time. There were also three other quarters when the market rose, though less than 5 percent.

Thus, over 70 percent of the time after experiencing a quarter of a sharp decline, the market actually rose.

Evidence such as this is why legendary investor Peter Lynch stated: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

And Warren Buffet's favourite time frame for holding a stock is forever.

Life is just too short for individuals to spend time worrying about their portfolio.

Prudent investors who stay disciplined and rebalance, buying low and selling high, clearly adhere to a superior strategy. Stocks are risky investments, no

matter the time horizon. Smart investors recognise that.

If you have any queries about this month's newsletter or would like to discuss your financial situation in more detail, please feel free to email or call our office on (02) 9525-0777. If you would like to forward this email to a friend, click on the forward email link below.

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