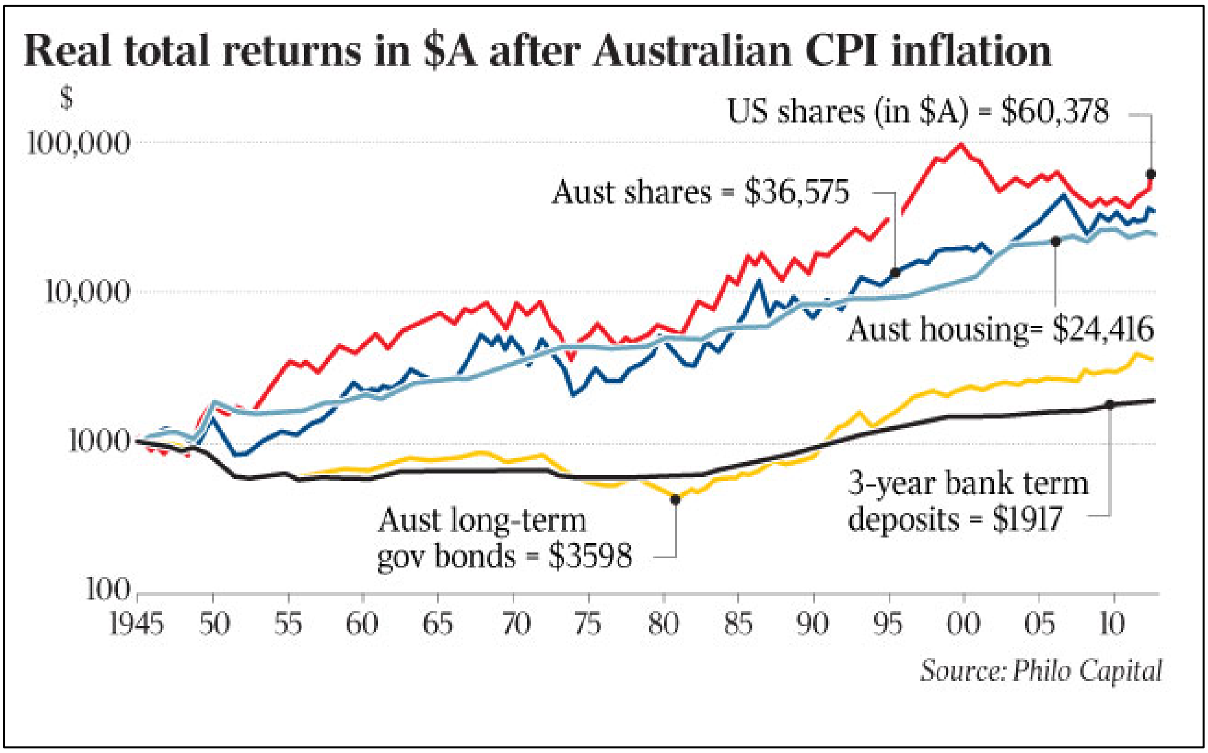
PANPA NEWSPAPER OF THE YEAR
THE AUSTRALIAN

BUSINESS
WITH THE WALL STREET JOURNAL

# It's never too late for long-term investing

DON STAMMER The Australian August 13, 2013 12:00AM




*Source:* The Australian

**SHAREMARKETS in wealthier countries have been travelling well. Particularly on good days, phrases like "a bull market in shares" are often spoken. Is it too late, in this cycle in shares, for investors to climb aboard the sharemarket bus?**

The good news for Australian investors is that US shares, which have led recent recoveries in other markets, still have attractive fundamentals. The market excesses that traditionally signal the impending end of the upswing in share prices are not yet evident, here or in the US.

However, there are the usual risks for this stage of the investment cycle. On average, shares are no longer cheap; and the next stage in the bull market would seem to require better growth in profits. Also, a fair number of investors, some who would be new to investing in shares and others who have avoided shares since the global financial crisis, are on the sidelines and saying to themselves: "If this market keeps going up, I'll start buying shares."

As Ashley Owen of Philo Capital observed recently, the risks of a wait-and-see approach can be significant: "Investors like to see prices (of shares or any other investment) rising. The longer prices keep rising, the more assurance they have that this time it's different and that prices will continue to rise Often they sit cautiously waiting and watching the market rise for several years before they finally pluck up the courage to take the plunge -- inevitably right at the top before the fall."

Here's a three-point list of what I wish I'd known when, a half century ago, I took an interest in share investments.

Share investments are mainly for the long term. As Shane Oliver of AMP Capital reminds us: "The best way to avoid losing in (growth) investments is to invest for the long term. Get a long-term plan that suits your level of wealth, age, tolerance of volatility, etc and stick to it."

One of the benefits of being a patient investor is that the passage of time brings with it the magic of compounding. Shares have delivered a compound real return (from dividends and capital growth and before-tax or franking credits) that has, in the long term, averaged about 7 per cent a year. At the tops and bottoms of the sharemarket cycle, there's always talk of a "new normal"; but long-term average returns have remained remarkably stable.

All that said, investors must expect, and allow for, cycles. Sharemarkets have always moved in cycles. Investor sentiment is a powerful influence on share prices; and there's a "herd instinct" that causes sharemarkets to swing from excessive enthusiasm at the top of the cycle to excessive gloom at (and after) a trough. The cyclical rises and falls are strongly asymmetric: average share prices "ride up on the escalators and come down in the lifts".

One or more of the following strategies can help investors cope with sharemarket cycles. Being a counter-cyclical investor in at least a part of the investment portfolio (that is, buying in gloom when shares are cheap and taking profits in the subsequent boom when shares are highly-priced) can assist. And investors should avoid having too much (or any) debt. Maintaining a sensible diversification across the main asset classes, such as shares, property, bonds and cash, reduces exposure to the cyclical ups and downs in share prices.

And so does having a core holding of safe assets to draw on should sharemarkets be extremely weak in the investor's early years of retirement.

[don.stammer@gmail.com](mailto:don.stammer@gmail.com)

*Don Stammer is an adviser to the Third Link Growth Fund, Altius Asset Management and Philo Capital. The views expressed are his alone.*