BALANCED INVESTMENT STRATEGIES

FINANCE ◆ BALANCE ◆ LIFE

Investor Education Series

Markets Work

Balanced Investment Strategies

ABN: 33 070 860 776

AFSL: 314 365

Postal Address: PO Box 1251, Palm Beach QLD 4221

Phone: (07) 5598 3800

Fax: (07) 5598 3711

Email: info@cosgroveco.com.au

No Guesswork Required

Do you want to know a secret? Building long-term wealth through investment doesn't have to be complicated. And it doesn't depend on making forecasts.

The simple fact is that market returns are there for the taking, so long as you stay disciplined and build a diversified strategy around risks that carry a reliable reward.

Yet, many people still believe that success in investment is about being lucky or being able to make accurate forecasts – picking the right stocks or getting your timing right.

Admittedly, sometimes the dice do roll the right way for speculators. But most of the time, they lose. And even when they do 'win', the costs of all that trading can wipe out any profit they make.

This is a view of investing that says success comes from predicting the future. The best advisors in this view of the world correctly anticipate events and put their clients into the 'next big thing' before anyone else cottons on to it.

The problem with hitching your investment strategy to someone else's forecasts is that unexpected events have a way of messing things up. And isn't that the definition of the future – unexpected events?

Working With the Market

The good news is that as a long-term investor, you don't need a crystal ball. And you don't need to knock yourself out trying to beat the market. You just need to work with the market by capturing the compensated returns that are there for the taking.

The fact is financial markets are highly competitive – so much so that they do a very good job overall of building new information into prices.

So, for example, if there are signs that an economic slowdown is ahead, investors as a whole might push share prices lower and seek the safety of bonds.

The ever increasing speed of news and information flows around the globe, the growing power of new technology and the competitive nature of markets mean this process gets more efficient by the year.

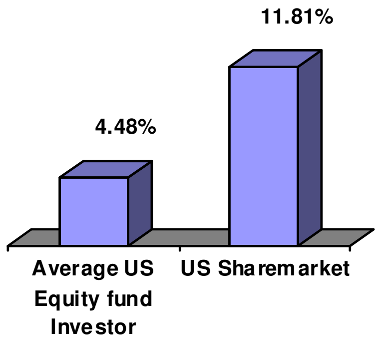
The traditional approach is to try to beat the market by taking advantage of pricing mistakes. But this is a hit and miss business. You're better off taking advantage of the ways that markets are right – the ways they compensate investors.

This makes sense as free, open markets are the lifeblood of the economy. They channel capital from investors to businesses, which put the money to work producing goods and services, employing people and innovating. That is how wealth is created.

The Mistakes We Make

As the person investing your capital in the market economy, you have a right to a share of the wealth created by this process. The tragedy is that most investors don't get the rewards available to them.

This chart tells the story. It compares the returns delivered by the US share market over a 20-year period with the returns received by the average equity fund investor. You can see there was a lot of leakage along the way.



Source: Quantitative Analysis of Investor Behaviour 2008 ©, 'What Investors Really Do .and How to Counteract It", 2008 Dalbar Inc. Data presented is for the 20 year period to 31 December 2007.

People don't get the returns they are entitled to for a number of reasons:

- Paying high fees
- Focusing on pre-tax returns
- Trying to time the market
- Failing to diversify
- Chasing last year's winner

Some of these mistakes are due to human nature. Some are due to the fact that much of the financial services industry makes its money by encouraging people to constantly reconsider their portfolios. And some are due to people being swayed by a short-term focused financial media.

Focus on What You Can Control

So what do you do to build long-term wealth? The key is to recognise the things you can't control – the markets' daily ups and downs and the daily noise from the media – and focus on the things you can:

- Structuring your portfolio
- Taking risks you feel comfortable with
- Ensuring those risks carry a reliable reward
- Staying diversified
- Keeping a lid on costs and taxes
- Staying disciplined

These are all decisions you can make with the help of a financial advisor who puts your interests first.

There is no single, perfect portfolio by the way. It will depend on your own lifetime goals and your appetite for risk. So the starting point should always be you and your own needs, not what someone is trying to sell you.

If you work on the assumption that markets work, the job is much easier. That frees you up to build a diversified portfolio that suits your own risk appetite and goals. You seek to capture risks that generate an expected return and reduce the risks that do not. You pay heed to costs and taxes. And once you're set, you stay disciplined.