

## Good things come to those who wait

It's a bumpy ride for investors at present with market volatility leaving many wondering what the future holds and how to best defend their investments, particularly their hard saved superannuation.

Having the right investment strategy can make a big difference to a person's final super balance and recent volatility highlights the importance of taking a long-term approach towards saving for retirement.

The most important thing for people to remember is to stay calm and stick to their long term saving strategy. It's by spending time in the market across a variety of cycles and asset classes that investment dollars can work their magic, boosting overall levels of super.

History shows that, despite periods of downturn, the market follows an upward trend over the long term, with shares providing better long-term returns than most other types of investments.

### **Risk versus return**

When setting up a super account, people have to decide what investment mix they would like to be invested in.

All investments involve some degree of risk. What's important is that people are clear about the level of risk they're prepared to accept. It's a very personal decision.

People have to strike a balance between their risk tolerance and the return they're aiming for. Generally, the higher the risk the increase in the potential for higher returns, but there is also a greater risk of a loss occurring.

People should consider whether they're a conservative, balanced or aggressive investor. Are they comfortable with fluctuations in the value of their investments?

People should choose asset classes and investments that best suit their risk profile. Historical evidence shows that "growth" assets (such as shares and listed property) produce greater returns over the long term but in the short term they are subject to greater volatility. Lower risk "defensive" assets (such as cash and fixed interest) tend to produce lower returns over the long term, but with less volatility.

It's important not to make any hasty decisions. If people are feeling a little anxious about recent market volatility, it's a good idea to find out more about how investing works. People might find their level of comfort changes when they learn more about the investing process and gain an understanding that investing is not generally a "get rich quick" activity; it's a technique to gradually build wealth.

But if a person's attitude to risk has changed over time they may need to reassess their goals and objectives and their investment mix – the combination of investments and asset classes within their portfolio.

### **Time in the market, not timing the market**

Many investors believe they can time the market – buying in before prices rise, riding the boom and getting out before it falls. For most people, anticipating these market conditions can be extremely difficult and many who try actually end up worse off.

One mistake many people make is to panic in periods of low or negative return and jump out. As well as losing money, these investors might also miss the next price rise.

Thinking long term is the key to successful investing, hence the old adage – it's time in the market, not timing the market.

## **Diversification**

One way to combat risk is by diversifying or not having all investment eggs in the one basket.

Diversification helps reduce overall risk by spreading investments over different asset classes. There are four main asset classes for investing: shares, property, fixed interest and cash.

People should consider potential rates of return of each asset class and balance this against the level of risk involved. The idea behind diversification is it reduces the likelihood of any single investment or asset class negatively affecting the value of a person's investment portfolio.

It's important to remember super is not an asset class but a retirement savings vehicle under which investments are held. This means a person's super may be invested in one or a number of different assets, depending on their chosen investment mix.

## **Accessing money now**

But what if retirement is imminent?

People should first weigh up the need to access their money right away versus the impact leaving the market could have. Accessing money during a downturn could result in unnecessary loss, whereas those who can afford to leave their investment untouched may benefit from staying in the market until prices improve.

A person who is retiring and wants to access money from their investments or start an income stream may choose to free up money from other sources or asset classes. This would allow their investment in shares to remain in place and they may benefit from any potential future increase in prices. People considering this strategy should be aware that there could just as easily be a further decrease in prices.

Or a person who is retiring and plans to cash their superannuation benefits might consider leaving the Australian shares component of their investment in place and withdrawing the balance, if needed.

The key point to remember is, don't panic. In times of volatility, it's natural for people to weigh up expectations and consider whether their investments are on track to meet their financial goals. Over time goals may change, therefore a person's investment strategy may need to follow suit and seeking the advice of a qualified financial planner can help.

Before making any investment decision people should seek advice from a professional financial planner who can take their individual circumstances into consideration to develop a realistic financial plan designed to help them fund the lifestyle they want now and in retirement.

**If you have any questions please don't hesitate to contact the friendly team at CA Financial Services Group on (02) 9955 7288 or email [info@cafinancialservices.com.au](mailto:info@cafinancialservices.com.au)**

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