



Fisher Funds

Investor Education Centre

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Is timing everything?

06/09/09

Six months ago it seemed like the only safe place to put your money was under your mattress. Share markets had slumped, there seemed to be no end in sight, and even those brave enough to consider investing in shares, did so gradually rather than in one lump sum.

This drip-feeding strategy paid off for them, and is a worthwhile approach during volatile markets because it enables you to lower your average entry price into the market or a particular share.

In the past twelve months, we've seen share market falls of 30-50% and since early March, we've enjoyed share market rallies of 30-50%.

For the average investor, all this volatility is completely off-putting, and it has left many too nervous to venture back. The sad thing about this is that investors often remain on the sidelines at precisely the time they should be buying, and when they eventually summon the courage to return to the markets, it's often at just the wrong time!

The best thing to do is to forget about timing altogether.

Legendary investor Warren Buffett says that short-term market forecasts are poison and should be locked up in a safe place away from children, and from adults who often behave in the market like children!

Buffett also advises investing as if the market was going to be closed tomorrow and not re-open for five years. This strategy ensures that you make the right investment decisions at the outset, and it makes day-to-day price changes far less important, and far less worrying.

One way to decrease the volatility of your investment returns is to stagger your investments. Putting smaller amounts into the market at regular intervals over time allows you to avoid the "darn, I should have waited another month" remorse that can arise with a one-off investment in a volatile market environment.

By investing at regular intervals, you have the opportunity to buy more assets when prices are low, and buy relatively less when prices are high.

The graph on the following page illustrates this concept using the actual performance of the Fisher Funds Australian Growth Fund. The unit price (in blue) is shown from the peak of the market in late 2007 until just a few days ago.

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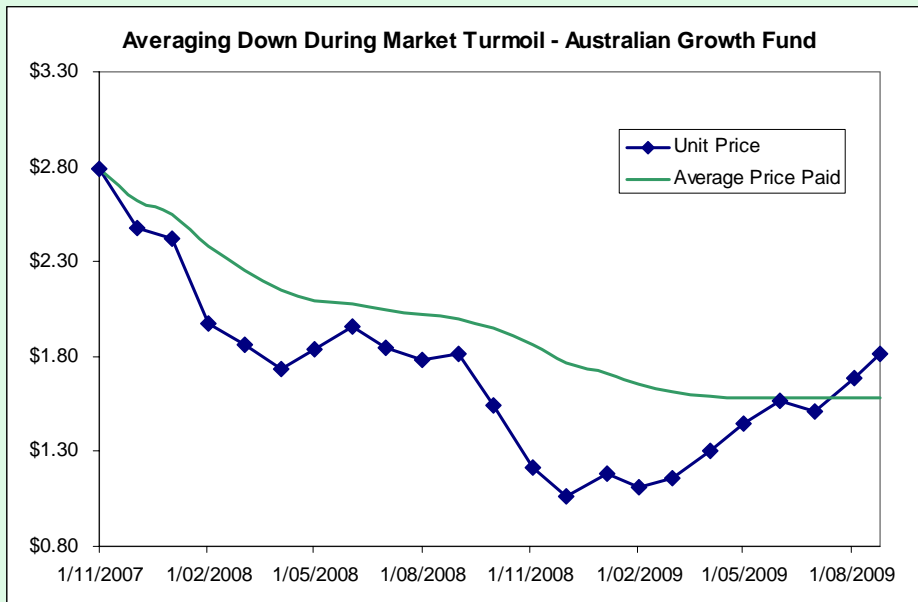
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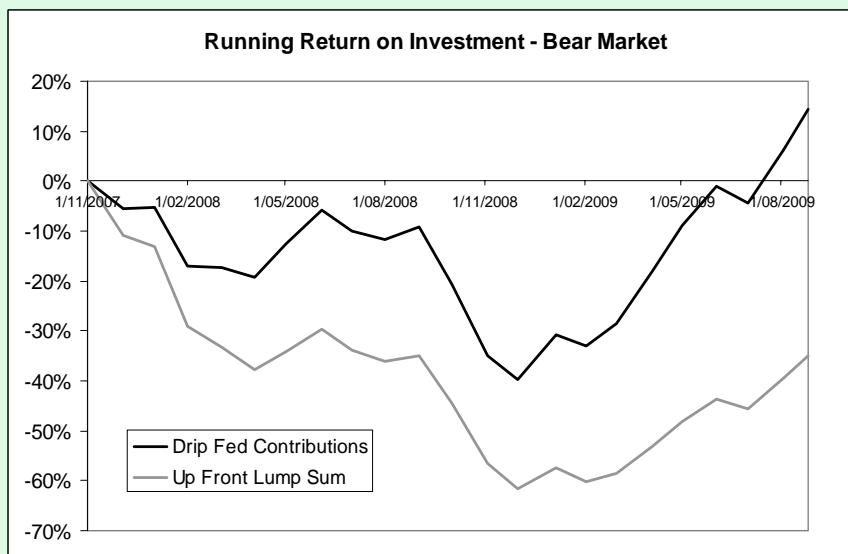
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If you had invested \$22,000 on 1st November 2007, you would have paid \$2.79 for each unit in the Australian Growth Fund. But if you decided to invest that \$22,000 in monthly instalments of \$1,000, you would have achieved a lower average entry point of just \$1.59. While the unit price has fallen since November 2007, you would also now have made money because your monthly purchases will have taken advantage of the volatility by buying more units at lower prices, and fewer units at higher prices. (see additional graph below).

It is important to stress that this method will not always increase your return. On the contrary, in a bull market, it will result in poorer performance. What it does do is reduce the *volatility* of your return. And that, in today's climate, is something most people find comforting.



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