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Like childbirth, crashes should be remembered and learnt from 21 August 2011

It is said that women forget the pain of giving birth as soon as they see their child, or very soon after. A week ago, share markets went on a crazy rollercoaster ride that lasted for four days, prompting alarmist headlines and worrying investors the world over.

But this week, it was as if the rollercoaster had never happened, and markets are back to where they were before the US credit downgrade which seemingly started it all.

I can tell you from personal experience, women don't forget the pain of childbirth; they just learn from it so that they can handle baby number two!

Even though markets are calmer now, it would be wrong to assume that market turbulence won't hurt next time. It is important to learn from the experience in preparation for the next bout of volatility.

Investors who sold some of their share market investments in the midst of the volatility might be regretting it now that stocks have regained their ground. But they can take some comfort in knowing that their panic reaction was understandable and actually has a name.

It's known as recency bias where our brains are more receptive to recent memories than distant memories, leading us to think the future will look like the recent past.

With memories of 2008 fresh in their minds, investors thought the recent rollercoaster was history repeating so they quickly took their money out to avoid it. Of course, in the clear light of day, it is obvious that the world is in a much better position than it was in 2008.

The lesson then? The market's daily moves are not always right and other investors can panic, just like you did. Keep your head, even when others aren't.

It is useful after such a market experience to review our actions and the markets' actions for hints as to what to avoid next time.

If investors sold in a panic, it may be that those assets were not right for them in the first place. Perhaps it's time to replace those assets that felt uncomfortable when the market was really volatile with others that might still feel appropriate the next time the market gets the wobbles. Some of our clients have taken a portion of their growth assets and invested them in lower risk assets, knowing that while this might lower their returns a little, they'll be able to sleep easier.



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As for the markets, even though they have largely recovered, not all stocks and sectors have performed the same. Some stocks suffered more whiplash than others, and some have not recovered as well as the broad market.

Given the inevitability of future turbulence, it is useful to make a note of which stocks and sectors performed the best through this period, and understand why.

We know that we shouldn't worry about short term volatility because the long-term returns from shares are better than other assets. But just as drugs help with childbirth second time around, if we can take some actions to dull the pain of market volatility, why not?!