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Mother Nature and Investing

21/03/10

Remember Chicken Licken who had an acorn fall on her head and assumed the sky was falling down?

The world is full of people who live in the belief that disaster is imminent. Given that Mother Nature continues to be unkind with earthquakes, tsunamis, fires, and droughts, it could be easy to sympathise with this view.

We know too well the dreadful human impact of natural disasters, but what about the impact of these unforeseeable events on investors and markets?

Investment markets have had minimal reactions to highly destructive, surprise events, including the recent large magnitude earthquakes in Haiti and Chile.

After Hurricane Katrina, the US share market fell 1% but was above pre-Katrina levels within days and went on to finish the year 10% higher. The day after the Chile earthquake in February, Chilean stocks immediately fell 3% but quickly recovered some ground to be just 1% lower by the end of the day.

It is important for all investors to take account of global events when making investment decisions. This includes asking the question, what can go wrong? And also reassessing things when something has gone wrong, to ask what happens from here?

The reason that markets have shaken off a fair number of catastrophes and quickly settled back to 'normality' is that in this interconnected world that we live in, few countries or economies are left to deal with the fallout of disasters on their own. Aid and assistance is quickly provided by other countries, so the economic impact is rarely large enough to bring down an entire country or economy.

It may seem cruel to mention it, but in the aftermath of disasters, there can even be some investment winners – countries, industries and businesses that assist in rebuilding infrastructure and getting countries functioning again.

Nervous investors who become very defensive when natural disasters or other surprise events occur may end up jeopardising their chances to achieve their investment objectives. Risks are forever present and there is no way to predict what will happen next and what market impact it might have. Avoiding investing until the risk of natural disasters or other unforeseen events subsides would mean never investing.

And never investing means never achieving investment returns.

The global financial crisis has certainly triggered a defensive response for many investors, as evidenced by the volume of cash that has left share markets and accumulated inside bank accounts.

In part this is a good thing, because investors are heeding the lessons learned over the last two years and are cautious about committing their funds to anything that is remotely risky. But risk

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can be a double-edged sword – the risk of losing our investment funds needs to be weighed against the risk of not maintaining or growing our funds to achieve our long-term goals.

Chicken Licken ultimately learned a lesson about having courage, and her friends Henny Penny and Goosey Loosey learned not to believe everything they hear (particularly the really negative stuff).

Perhaps there is a lesson in this fable for today's investors.



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