

Our Thoughts Is now the time?

One of the more frequent questions we have had lately has been “is now the right time to be investing in shares?”. When investing, only the future matters, but in the midst of a recession our thoughts are naturally impacted by events of recent times.

You may be thinking this recession is going to get worse before it gets better, and now is not the time to be investing in the share market;

You may be thinking it is better to keep the majority of your cash in the bank even though interest rates are low and falling; or

You may be thinking the bottom of the share market is still ahead of us, and you’ll stay sitting on the sidelines until that moment arrives.

We **don’t** blame you. It has been a tough time for share market investors and nobody seems to know what lies ahead.

So are we at the bottom?

We will only know for sure after the event. By the time all the pieces of the puzzle fall into place it’s too late. In fact, share markets have historically recovered well before recessions have ended, even while negative news continued to flow.

We have already seen evidence of this with our own funds rising strongly off their lows*–

| Fund | Percentage increase |
|----------------------|---------------------------------|
| New Zealand Growth | +30% since its bottom in Mar 09 |
| Australian Growth | +54% since its bottom in Nov 08 |
| International Growth | +41% since its bottom in Nov 08 |
| KiwiSaver | +31% since its bottom in Nov 08 |

* based on unit prices at 29/05/2009

Clearly it is impossible to pick the exact bottom, but it is certainly easier to see early signs of an economic recovery now than it was six months ago. The caveat to this statement is that a bottoming process can take time.

One way of managing this is to put new money into the market in a series of steps rather than picking one day on which to invest.

Fear and emotion

One CEO said to us in late 2008 “we could invent the cure to cancer right now and our share price would still fall.” However 2009 has witnessed a change in the market. Despite the fact that sentiment continues to be fragile, the panic we saw at times during 2008 is now less evident and logic is slowly becoming more evident again.

The smart money is buying

The investment professionals whose words we heed and who have the track record to back them up are seeing and acting on the buying opportunities in the share market.

Exhibit 6: Buffett Rarely Talks about the Market, but Heed Him When He Does



Source: Jeremy Siegel; Bloomberg; LMCM estimates. As of 10/23/08.

It takes courage

The market is low, economies around the globe are in recession, investors have had a crisis of confidence, companies are laying off staff and profits are falling. The outlook seems anything but rosy. Buying shares when most stocks are falling is not easy.

But won't it be good money after bad?

It is hard to think about investing more after your initial investment has lost value. But remember, your earlier investment hasn't permanently fallen in value – it has fallen because investors sold risky assets as they become fearful. The reverse can happen when they become more optimistic. Both your existing investments and your new investment can benefit as investor confidence returns.

You want to invest in times of pessimism

Not because you like pessimism, but because you like the prices it produces. Remember, you own a portfolio of companies that have low debt levels, sell things that people need and are very reasonably priced. Investments like these do recover and over time perform well. As investors come back into the market they are likely to target good businesses that are selling cheaply and we believe our portfolios are filled with them, meaning the portfolios are well positioned for the years ahead.

Dollar cost averaging

Dollar cost averaging is one way to protect against the risk of getting the timing wrong. Regular investment removes the emotion of trying to pick the bottom of the market or when is the “right time” to invest. We are doing the same for you – in each of the portfolios, we are adding to holdings on weak days and selling a little when the market gets carried away. It has been encouraging

over the last few months to see our portfolios participate in the good rallies while remaining quite defensive on the down days.

Performance fees

The correction in share markets over the last 18 months means that any new or additional investment you make now will not attract a performance fee in our funds for quite some time. The table below shows the returns from today* before a performance fee will be charged:

| Fund | Returns |
|--------------------|---------|
| New Zealand Growth | 82% |
| Australian Growth | 67% |
| KiwiSaver Growth | 14% |

* based on unit prices at 29/05/2009

Which funds should I choose?

There is no right answer to that question. Each fund has its merits but investing across more than one of our funds ensures that your money is diversified across economies, industry sectors and geographies, acting as a risk buffer. The problem with investment is that there is no crystal ball that can tell us with any certainty which fund is going to be the best performer today, tomorrow, or next week, let alone this month or this year. Remember, as an existing investor there are no fees to add to your existing funds or to start a new fund.

So is now the time?

Yes the environment remains volatile and yes the market could drop again but there are compelling signs emerging that mean investing new money into the market is something investors should now be considering.

Next steps

Please contact your advisor for further information.

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