



# Fisher Funds

## Investor Education Centre

*Making investing enjoyable, understandable  
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### **Sale prices light up investors' eyes**

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If you want to build your savings over the next five years, should you hope for a higher or a lower share market during that period?

A lot of people get the answer to this question wrong.

Even though they are going to be buyers of stocks for the next few years, they get excited when share prices rise and depressed when they fall. This makes no sense. Only those who expect to be sellers in the near future should be happy at seeing stocks rise.

Buyers should always prefer falling prices, because they can use the opportunity to stock up on cheap shares.

Most people are happy to open their wallets when their favourite stores advertise sales with 20, 30 or 50 per cent off normal prices. Few of us would say "I don't want to buy these things when they're on sale, I'd rather wait for the prices to lift and then I'll buy." But that's exactly how we behave when it comes to investments. When the market drops, putting stocks on sale, we stop buying and sometimes (bizarrely) we even sell. And when markets rise, we buy with increasing enthusiasm.

So why do investors behave so irrationally?

It is not because we are unintelligent. We all know that it's better to buy cheap stocks rather than expensive ones. We know that the higher the price we pay, the lower the return we'll likely get in the future.

But knowing it, and acting on it are quite different things. Our emotions get in the way and lead to irrational decisions.

One way to overcome these emotions is to save regularly and automatically, so that the requirement to make decisions is removed. Trying to decide whether to invest today or next month is really hard when markets are bouncing all over the place. And there is nothing worse than taking the plunge, only to find prices falling the next day. We kick ourselves for not waiting one more day. But it's not logical – what is one day, or one month, or even one year, in the context of a long term savings plan?

KiwiSaver is nearly three years old. Some of the best KiwiSaver experiences have been had by people who started their KiwiSaver accounts in the middle of the global financial crisis, when prices were falling. It was hard at the time. Imagine how it felt for those KiwiSavers who invested their first \$1,000 at \$1.00 and then watched the price fall to 80 cents or lower? But while it might have felt horrible at the time, they were getting lots more shares for their money when prices were falling. Now that markets have recovered from their lows, those early savers have enjoyed the gains on more shares than they would have had if the price had remained at \$1.00.

Markets have been pretty choppy lately, falling around 5% in just the month of June. This is precisely the sort of market that should excite long term savers.

It's as if investments are having a mid-winter sale – get in quick while stocks last!

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