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*We're proud when we say that most of our clients have come to us by way of referral from our existing happy, satisfied clients.*

## Buy, sell or hold: How to deal with market movements

When share markets fall, every investor has a different emotional response. Some investors get anxious and sell up at the first drop in value, whereas others are happy to ride out short term fluctuations to realise the long-term benefits of their investments down the track.

One of the reasons for these different reactions is that all investments carry some level of risk, and we all have different perspectives on how much risk we're willing to accept. This is because many personal factors can impact our investing style – from our financial situation and investment timeframe to our lifestyle goals and even our personality.

But when markets are in flux, how do you know if it's time to change your strategy? Here are some things to keep in mind.



### How do you react to market fluctuations?

A study by Colonial First State Global Asset Management (GAM) examined how a recent period of market movements impacted people's investment decisions.

The results showed that as confidence declined, portfolio activity increased as more investors moved away from the stock market. In fact, the group most likely to switch out of shares were investors aged 50 and over. This is perhaps because they were seeking to preserve their capital and minimise their risk exposure as they headed towards retirement.



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While investors of all ages often respond to uncertainty in the market by taking a more active approach to their investments, this may not always work in their best interests. Not only is switching costly, but it can also mean missing out on opportunities when the market recovers.

### **What happens if you sell?**

Before you withdraw from an investment, it's important to make sure you understand all the implications, including the risks and costs involved. For one thing, if you sell your asset you may be liable for capital gains tax (CGT), which can reduce the profit you stand to make.

What's more, even if you're only planning to sell off part of an investment, it's not just the face value you'll be giving up. You'll also miss out on the benefits of compounding, which means you won't be able to earn further returns on the shares you sell.

But that's not all: if the value of your investment is falling, this is only a hypothetical or 'on paper' loss. If share prices begin to rise again, your investment could soon return to profit without you doing anything. However, if you sell your investment while its value is down, you essentially crystallise your losses – making them real and irreversible.

### **Are there alternative options?**

When tailoring your investment mix, it's important to focus on the big picture and think long term. That way, you'll be able to ride out short-term fluctuations and take advantage of growth opportunities.

If you're investing for the long term – for instance, with your superannuation – it's important to have a diversified portfolio. This means investing in a variety of different asset classes. GAM's research revealed that Australian investors tend to react to uncertainty overseas by reducing their exposure to international shares. But while this may seem like a sensible move in theory, it also means your overall portfolio will become dependent on a smaller pool of asset classes.

On the other hand, a diverse portfolio allows you to spread your risk exposure across different asset classes and markets, rather than putting all your eggs in one basket. This provides a financial buffer whenever an individual asset class declines in value.

If you're thinking about changing your investment strategy, your financial adviser should be your first port of call. They can review your portfolio to make sure you have the right investment mix, taking into account your financial goals, investment timeframe and risk appetite.