Antipodean Advisory

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How you can benefit from market fluctuations

When share markets experience a downturn, it's easy to get nervous about the impact on your investments. But this kind of volatility doesn't always necessarily spell bad news – as billionaire entrepreneur Warren Buffett once said, "Be fearful when others are greedy, and greedy when others are fearful."

While it may seem strange to buy when everyone else is selling up, the fact is that even a declining market can present opportunities. The key is to choose a mix of investments that allows you to take advantage of both positive and negative market movements.

Here are some strategies that every savvy investor should keep in mind.

Understand share price changes

When markets are driven lower by negative sentiment, assets can potentially fall below their fundamental value. These conditions may then provide valuable opportunities for investors to temporarily buy shares at a discount.

This is because the value of an individual stock is the sum of the returns it can potentially generate over the company's lifetime. So while short-term shockwaves such as recessions or political events can affect the immediate share returns on an asset, they won't necessarily impact its intrinsic worth. But be careful as this doesn't mean you should buy anything and everything that's on sale. For instance, a company's share prices may be falling because of other factors that will erode the long-term potential of those shares. And with any investment, you want to be reasonably confident that its value will rise in the future.

Investment managers and financial advisers work hard to identify undervalued assets and take advantage of market dips. That's why it's always important to seek professional advice before you make any major investment decision.

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Take a long-term view

A down market offers the potential to earn greater returns than an up market. This is because, theoretically speaking, the lower your starting point, the higher your stocks can move. However, this is usually only true if you adopt a long-term investment strategy that will help you ride out any future market fluctuations.

Despite periods of short-term fluctuations, historically share markets tend to move upwards, and shares are an investment vehicle designed to be held for periods of five years or more. So, whether the market is up or down, you may be wise to 'buy and hold' so you can increase your potential for strong returns in the long run.

Diversify your portfolio

Even the most seasoned investor knows how difficult it is to time the market. Rather than trying to predict future movements, some say it helps to take a measured approach by investing regularly over months and years, regardless of how the market is performing. So if you continue investing consistently when prices fall, you'll be able to buy a larger number of shares for the same amount you usually invest.

It can also help to diversify your portfolio by investing in defensive assets such as fixed-interest investments and cash. These tend to be less dependent on market cycles, so they can provide stable earnings through periods when markets are on the move.

Most importantly, remember that a financial adviser can help tailor your investment strategy so you can make the most of market movements. Your adviser can also ensure your portfolio is robust and diversified, so you can protect your investments and keep your financial plan on course.

Source: Colonial First State