Dear <Client>,

**Acting on emotions can affect investment outcomes**

Investing is fascinating, and often exciting and fun, but there’s always an element of risk involved – the chance of losing money. One of the big factors that make investments risky however, is our own investor behaviour.

I’ve been providing financial advice to clients for many years now and when the share markets experience turbulence, many new clients ask me “Is the market going to continue dropping?” and “Should I get out of the market?”. It’s natural for investors to ask these types of questions but unfortunately, investing isn’t ‘natural’ and at times can seem ‘counter-intuitive’.

While I can appreciate that an investor’s stomach can be sick with worry at times, it’s important not to get caught up in the emotion of the situation. It’s impossible to know how the share market will perform tomorrow (unless you have a crystal ball…), but making ‘spur of the moment’, emotionally-driven and irrational investment decisions will inevitable hurt returns over time – it may mean failing to reach your financial goals.

To highlight this, here’s an interesting chart I wanted to share with you. The chart demonstrates three different reactions to an investment loss during the October 2007 to January 2014 period, which included both the global financial crisis and the strong recovery that followed.

Based on a $10,000 investment in the Australian share market during this period, the value of the investment dropped to $5,282 by February 2009 (the ‘bottom’), following a severe market decline. If an investor had remained invested in the market during the period however, the ending value of the investment would have been $10,155. If the same investor exited the market at the bottom to invest in cash for a year and then reinvested in the market, the ending value of the investment would have been $7,260. An ‘all cash’ investment at the bottom of the market would have ending up at $6,394.

The point is that markets go up and down. While recoveries may not all yield the same results and that results are likely to vary (as investing involves risk, fluctuating returns and the possibility of loss), I always advise my clients to stick to a long-term, fundamental (or fact based) and valuation driven approach to investing in order to resist the temptation to ‘buy at the top’ in times of market euphoria and equally ‘sell at the bottom’ in times of market stress (i.e. buying high and selling low… in other words, putting your money in a pile and burning it).

I encourage you to stay the course and invest in line with the risk profile that we have determined as appropriate for you and then leave it this way… assuming that your personal investment objectives and circumstances do not change. Your portfolio will continue to be professionally managed and consistent with your own risk tolerance and risk capacity at any point in time, based on the attractiveness of investment opportunities available.

As Benjamin Graham once said: “The investor’s chief problem—and even his worst enemy—is likely to be himself.” In case you don’t know of Benjamin Graham, he was famously remembered as the ‘father of value investing’ and Warren Buffett’s teacher. Warren Buffett is considered by many to be the most successful investor in the world.

As always, if you have any questions, feel free to get in touch.

Regards,

<Adviser>