



LONSDALE



Belmores Wealth Management

## Is it safe to get back into the water yet?

The Australian share market has rebounded by over 30 per cent since hitting a low in March this year. To mid August, this proved to be Australia's best five-month run in over 20 years.<sup>1</sup>

Despite this, there's still doubt as to the strength of the economic recovery in Australia. The possibility of higher interest rates and reduced consumer spending can dampen the recovery and analysts are divided as to whether the share market has hit rock bottom - that magic point beyond which the market will begin its sustained recovery. What is known, is share markets have recovered each and every time after major world crises.

Dr Shane Oliver, Chief Economist at AMP put it this way. "I have gone through some dusty record books and calculated that if this is the start of a bull market, then history says there is a very long way to go in this charge. Since 1894, the average bull market has seen shares gain 150 per cent, and since 1950 the average gain has been 132 per cent."<sup>2</sup>

### So is it safe to get back into the water yet?

To take advantage of the normal volatility of share markets even in market downturns, there is a strategy that enables investors to minimise the risk of trying to 'time the market'. This strategy, called "Dollar Cost Averaging" (DCA), is one way for investors to enter or get back into the market whether it is rising or falling. Instead of investing all your capital in a lump sum, you drip feed it at regular intervals - say once a month or once a quarter.

With DCA, you actually take advantage of market fluctuations instead of worrying about them! By investing a regular amount on a periodic basis, you avoid making a large single commitment to the market and average your purchases over a range of prices.

### Consider the following example:

**Scenario 1:** Invest \$50,000 as a lump sum in January

**Scenario 2:** Use DCA and invest \$5,000 each month for ten months

As long as unit fund prices are volatile but eventually rise (as in the table below), the value of the investment will be higher using DCA.

# Snapshots



## This is how it works.

Under both scenarios \$50,000 in total is invested but the number of units purchased is different. Under the first scenario 7,143 units are purchased (\$50,000 / \$7) but we purchase 9,359 units under scenario two (see the table below). At the end of the investment period (October in this example), the value of the two investments is:

**Scenario 1:** \$50,000 (7,143 units x \$7)

**Scenario 2:** \$65,513 (9,359 units x \$7)

DCA enables you to acquire more units if prices fall. When the share market recovers, these extra units increase the value of your investment.

Scenario 1	Investment Amount	Unit Price	Number of units
January	\$50,000	\$7	7,143 units
Scenario 2	Investment Amount	Unit Price	Number of units
January	\$5,000	\$7	714
February	\$5,000	\$6	833
March	\$5,000	\$4	1,250
April	\$5,000	\$3	1,667
May	\$5,000	\$5	1,000
June	\$5,000	\$8	625
July	\$5,000	\$9	556
August	\$5,000	\$5	1,000
September	\$5,000	\$5	1,000
October	\$5,000	\$7	714
<b>Total</b>	<b>\$50,000</b>		<b>9,359 units</b>

If you are making regular super contributions or reinvesting your dividends, you're already taking advantage of Dollar Cost Averaging and you can be confident that whenever the market does recover you won't miss the upturn.

Remember the smart money is already seizing the day. The world's most successful long term investor Warren Buffett has been investing throughout the downturn. As Buffet said in the New York Times, "Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month - or a year - from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over."<sup>3</sup>

[1] Trading Economics, August 13 2000 [2] Richard Webb The Age, 2 Aug 09 [3] New York Times, October 5 2008



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**Belmores Wealth Management**  
70 Belmore Street  
Yarrowonga VIC 3730

P 03 5744 1211  
F 03 5744 2553  
E [bwm@belmores.com.au](mailto:bwm@belmores.com.au)  
[www.belmores.com.au](http://www.belmores.com.au)

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