



Key Investment Concepts

“It’s time in the market”

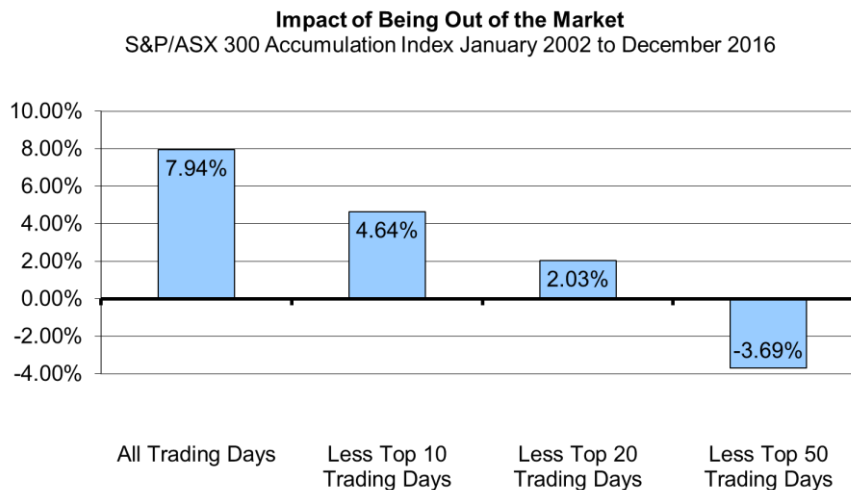
Aon Hewitt Financial Education Series

“It’s time in the market, not timing the market”

As we know, investment markets go up and down on a daily basis. Logically the best time to buy anything, be it a car, home, boat or shares is when the price is at its lowest. Equally the most profit is to be made by selling your investments at the peak of the market, when prices are at their highest.

However, trying to accurately identify the low or high point of any market (referred to in investment terms as “timing the markets”) is virtually impossible even for the most expert investors.

The majority of investors who try timing the markets in fact usually make less of a return on their investment than those people who ‘get in and stay in’ for the long-term. This is illustrated by the graph below, which shows the impact of missing the best trading days (those with the largest increases) of the Australian share market, using the S&P/ASX 300 Accumulation Index.



Source: Lonsec Research, Bloomberg, FE

If you invested in the market from January 2002 to December 2016, you would have received an annualised return of 7.94%. However if you had mistimed the market by buying and selling into the market, and missed the top 50 trading days over the same period, the annualised return would have been -3.69%. By being out of the market you miss out on the rallies that tend to follow market falls.

Successful investors are not distracted by day-to-day market volatility; rather they understand the overall trend is for investment markets to rise over time. They remain invested for the long-term, ignoring market volatility in the short-term and resisting the temptation to try to time the markets.

For most people, the way to build wealth is slowly, over time. If you have any questions please speak to your financial adviser.

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