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IS IT TIME TO EXIT SHARES?

By the time you read this article, global markets may have gone up by 6 per cent. They could equally have gone down by 6 per cent. Depending on how investors round the world feel about Greek debt, they may even have done both.

Volatility fatigue is setting in, and I'm often asked how much should investors be expected to stomach before calling time and exiting their shares? My answer usually involves the following key questions:

Are you a long term investor or a short term speculator? Speculators are in the business of making money from trying to predict short term changes in value. For them, volatility is not only good, but necessary. I can't advise speculators because that isn't the model I follow. But for long term investors, the current volatility is irrelevant. And the noise of the headlines is best ignored. Five years of increased volatility is of little consequence on a twenty year investment journey.

Have your goals or needs changed? Life moves on for all of us and sometimes this requires a change of financial strategy too. But if your essential goals and needs are no different now from before the volatility, then why change your investment approach? It is in the nature of markets to go down as well as up. That's what they've always done. So hold fast and keep the faith that a well-considered strategy appropriate to your needs should not be changed unless your goals or needs have.

Will you crystallise a loss by exiting? Paper losses are on paper. They aren't real until you decide to sell. And with the passage of time, paper losses can transform amazingly into paper gains. If, by exiting shares you turn a paper loss into a real loss, you deprive yourself of the possibility of seeing that transformation. Instead, you are left with less money than you started. You are also faced with the following two questions:

Will you consider investing in shares when things are 'back to normal'? Getting out of the kitchen because you can't take the heat may seem a sensible approach. But the problem with jumping in and out of share investments is timing. Not even the savviest investment brains on the planet know when the market has hit the bottom, or reached the top. And while getting out of the market is a relatively easy acheive, at what point do you get back in? If a relatively long period of calm and market consolidation is what you'd prefer to see, chances are you will have missed out of the biggest upswings in value, which usually occur right after the bottom. And in the meantime …

Where will you invest instead? The security of a deposit account with the bank may be seem an appealing prospect. And although fixed rate investments have an important place in an overall wealth management plan, they shouldn't be the *only* place you secure your core wealth. This is for the simple reason that they don't generally pay great rates of return and therefore aren't really a long term solution. When taking inflation into account, ten years in most secure fixed investments will not only fail to increase your wealth, you may find that, in buying terms, your money is worth less than you started. Ten years in a well diversified equities portfolio, on the other hand, will generally deliver vastly superior returns.

I hope these questions have helped provide some perspective. Keeping focused on the big picture can be hard. But with investing, as with life, it's the way we deal with adversity that ultimately matters.

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