



How to double your money

Share investing is like playing snakes and ladders. Just when you've got things under control you suddenly find yourself going backwards. But, if you hold your nerve, you'll win out and the slides may actually be opportunities to get ahead.

The booming Australian share market recently got the wobbles. Early last week, the fall was some eight per cent from the July 24 peak. But it's not the first time the market has gone south. Last February, the market fell six per cent in a week. In May, 2006, it dropped around 10 per cent in a month.

After those falls, the market recovered strongly, hitting new records. In the last year, the share market index was up 29.2 per cent. Over three years, the annual return was 26.3 per cent.

A key reason for the strong numbers has been the helpful economic environment, with low interest rates, strong world economic growth, and positive consumer and business sentiment.

It was all going swimmingly, until the US hit trouble. Consumer sentiment in the US has been hit by the weak housing market.

At the same time, issues with US low-doc loans — called sub-prime mortgages there — caused jitters in investment markets worldwide. Credit-risk concerns were worsened by some investors' tactics.

Both local and international companies have also found it harder to exceed earnings expectations ratcheted up over recent years.

Meanwhile, the strength of the Australian dollar had a negative impact on local companies receiving a large part of their earnings from overseas.

But is disaster looming? On present evidence, my opinion is no. There are always things to worry about but, over time, shares will do well.

The big worry is a liquidity crisis in the US and, so far, it appears manageable. If a liquidity crisis

were to spread, then central banks should manage it because inflation appears to be under control.

Interestingly, a share-market fall may present an opportunity to buy. In 2003, shares were at their low point since the technology boom.

The Australian market was well placed for a rise, with shares in quality companies cheap by any measure. Those who invested then, and in the year or two following, would be very happy today. Of course, knowing when markets will fall is virtually impossible, so drip your money in gradually.

This is known as dollar-cost-averaging and takes away the guesswork. This means you invest a set amount each month into a share fund. When markets are low, you get more for your money; when they are higher, you get less. Over time, you build wealth by contributing regularly.

Take an investor who used this strategy from 2000. I picked this start date because it includes both a downturn and recent good years.

Starting with an investment of \$2000, the investor added \$200 each month. By the end of July, 2007, the \$20,200 invested was worth \$41,355, assuming the fund achieved the index return and dividends were reinvested. The investor has doubled his money over seven years just by being disciplined.

The best advice I can give is to ignore short-term volatility and concentrate on the fundamentals. The global economy is in good shape, the Australian economy is very sound. The population is growing, adding to demand for goods and services. While the market may move up or down in the short term, I'm very happy holding shares for the long term.

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PAUL'S RULES

1. Expect a share investment to have periods where the falls are significant. Over time the good days will outnumber the bad

2. When the share market goes backwards it may be a good time to buy quality shares more cheaply

3. The Australian share market still looks reasonably priced. The next stage may see more normal returns in the high single digits not the 20 plus returns of the last few years

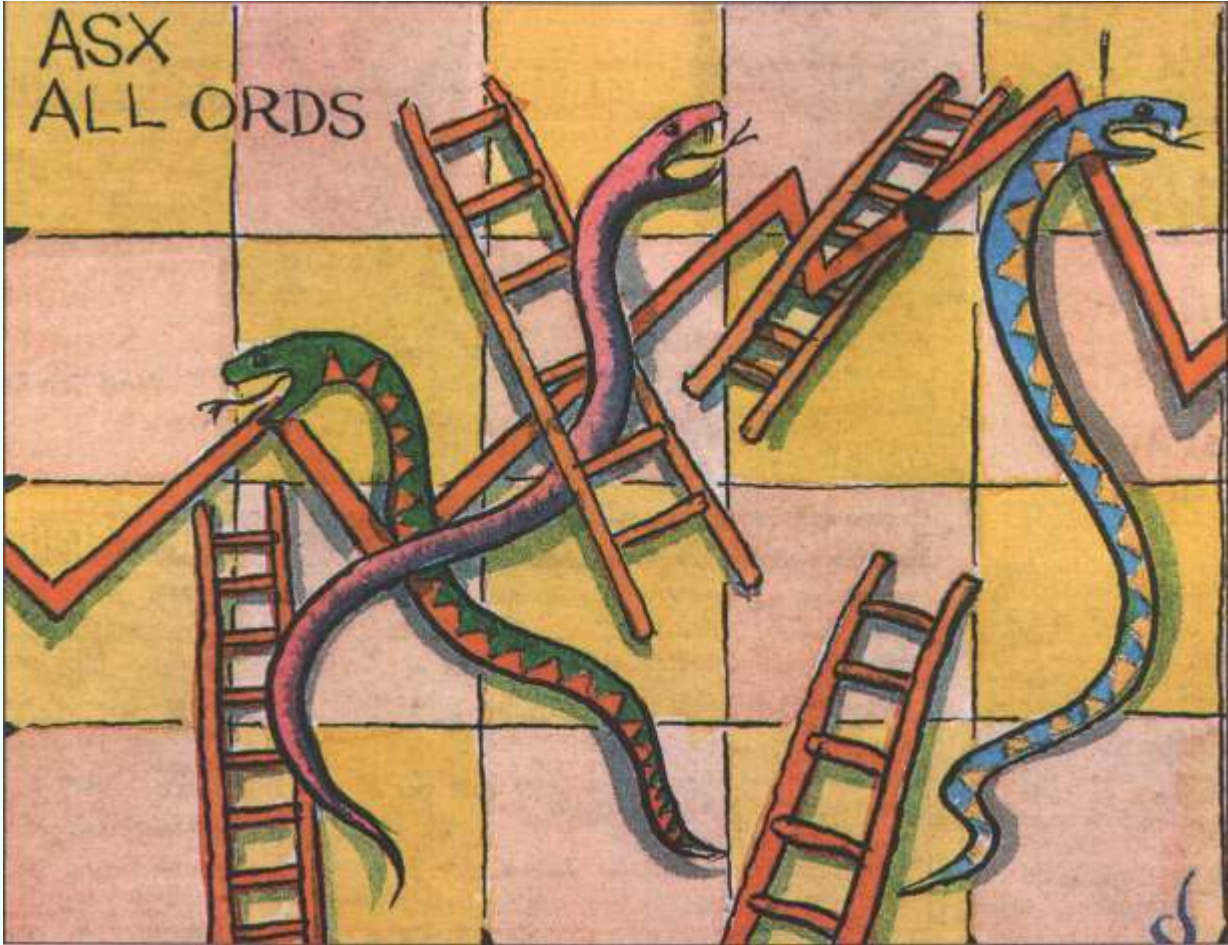
4. The big risk is inflation. So far, central banks appear to have it under control

5. Dollar cost averaging is a strategy to invest regularly which is the secret to building wealth. You buy more when prices are low and fewer when prices are high



Sunday Telegraph
Sunday 12/8/2007
Page: 7
Section: Money & You
Region: Sydney Circulation: 685,000
Type: Capital City Daily
Size: 579.09 sq.cms.
Published: -----S

Brief: AXA_BUS
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