SHOULD I INVEST IN THE STOCKMARKET NOW?

Sharon Mance has recently inherited $200,000 and asks if now is the right time to invest in the stockmarket. Adrian provides some useful tips with investing in shares.

The Australian stockmarket has taken a fair pummeling since its highs back in November last year when it reached 6853 points to its current level of around 4200.

So we know that it currently isn't at its high but is it at its lowest point and can we expect it to start bouncing back up again?

I think the Australian market offers some great bargains right now and it could be a great time to take advantage of some "cheap" shares that have fallen too far. But we still need to be careful and don't go into the sharemarket with blinkers on because I feel that there is going to be another six months of volatility before it starts settling down.

This isn't the first time in history that the sharemarket has dramatically fallen. We have seen substantial falls in the market on single days in 1929, 1974, 1987, 1997 and 2001 for example. However, every time that the sharemarket has been rocked it has bounced back and gone higher.

One thing we do know is that the sharemarket has a strong track record of solid returns in the long term and that the market takes an average of 152 days to recover from its losses. The sharemarket also has a historical upward climb when a US Presidential election occurs and we all know what is happening at the moment over in Washington DC.

So whilst I think now is a good time to invest her money, I advised Sharon against investing the whole $200,000 straight away. I told Sharon that it is impossible to predict if the sharemarket will actually fall further or not because there are so many factors beyond our control. It is still possible that the market will fall further and people will lose even more money.

I suggested to Sharon that a better investment strategy for her to consider is implementing a dollar cost averaging strategy. This involves her drip-feeding money at say $30,000 per month into the sharemarket over a six to seven month period. This reduces the risk of having all of her money being subject to further falls in the market yet allows her to take some advantage of the low prices now.

I told her that it is important that she invests in a number of stocks (around 15) to diversify her risk. Putting all your eggs in one basket is a risky strategy because we cannot predict when company share prices dramatically fall as ABC Child Care, Allco and Babcock & Brown have recently shown us.

I suggested that she seek expert advise from a quality stockbroker to tailor a portfolio for her. It is important that she purchases shares in quality companies rather than going for "speculative" companies at the moment.

After all, investment guru Warren Buffett suggests it is better to buy the shares of a great company at a fair price rather than a fair company at a great price. And with his great track record, that is advice that is impossible to ignore.

Golden rules for investing

- **Market timing –** whilst it is impossible to predict the market lows, the greatest returns in sharemarket history are made when you can pick the share price at its lowest. Buy low, sell high

- **Time in the market –** if you bought when the sharemarket was higher, then an important maxim is to stay in the market and don't panic. Generally in the market, what goes down will invariably go up over time.

- **Don't have all your eggs in one basket –** the risk of losing all your money in the sharemarket actually reduces the more stocks you have via diversification. But don't have more than say 15 stocks because the brokerage costs will start outweighing the marginal benefits.

- **Pick quality stocks –** when markets fall we often see that some great stocks have been reduced too much and are actual at a discounted price. I have seen too many people lose money on speculative stocks than make money on them.

- **Dollar cost averaging –** don't buy 100% of your portfolio on the one day. Spread it out over a number of months to avoid the problems associated with market volatility.

- **Fully franked shares –** companies that pay fully franked dividends are provide a better after tax yield than those that pay unfranked because you get a credit of 30% company tax already paid. It means that those earning less than $80,000 effectively get dividends tax free.

- **Borrowing –** for a borrowing strategy to work, you need to get a return greater than the cost of the interest rate that you are paying. Otherwise you are falling further behind. Excellent strategy to consider in a rising market and the interest is tax deductible.

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