



## MONEY DUE REWARDS:



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### Investing in Tough Times

For those who follow the international financial news, the last few weeks have certainly thrown up a few surprises. Eighteen months ago, when news began to emerge about problems in the US “sub-prime” mortgage market, who would have dreamed that Bear Sterns and Lehman Brothers would go bankrupt, that “Freddie Mac” and “Fannie Mae” would be effectively nationalised, that Merrill Lynch would be taken over at a “fire sale” price, or that AIG, Morgan Stanley and Goldman Sachs would need government-funded rescue packages? These events have certainly surprised a lot of people, and have created panic and turmoil in markets all over the world.

Suddenly, times are tough. In the roller-coaster world of finance and investment, this represents a “moment of truth”, where investors find that the risks they face (and which have always been there) are suddenly staring them in the face. Some react to this with admirable composure, while others are not quite so calm.

For me, one of the unexpected benefits of these events has been that some of the more seasoned professionals in the funds management industry have decided that the occasion is important enough for them to sit down at their computers and write about it all. The result has been the publication of some excellent articles concerning the art of investing – written with the benefit of many years of investment experience.

One example of this, is a brief piece published by BT Investment Management on 19 September 2008. It is called “Rules for Investing When Times are Tough”, and consists of six helpful tips designed to “keep your investments on track” - which I will now summarise.

The first tip is to “take comfort from history” because “the long term trend is up”. The point is made that despite similar crisis events happening many times before, that the long term performance of the investment markets is overwhelmingly positive. It is part of our human nature to assume that what has happened in the immediate past is what will continue to happen – however history tells us otherwise.

The next words of advice are that we should “stick to the original investment plan”, and not “overreact to short-term market movements”. While most investors don’t like to be told this, the main risk at times like the present, is that they will lose their nerve and deviate from their long term plan – for example by switching to cash at the lowest point of the cycle and missing out on the sharp rebound which inevitably follows.

Another helpful hint is to maintain enough diversification in your portfolio to spread the risk between the various sectors. Again, when one sector is performing particularly well (or very badly), there is a great temptation to sacrifice diversification – and often with adverse results.

The final gems of wisdom are also well worth taking notice of. “Get advice from a qualified source”, and “stay informed”. A professional advisor can certainly assist with these, and is well worth having access to in hard times like the present.

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