

# time to invest

Time, the credit crunch and the recession rumble on. If we believe the news reports and the various figures that are being published the credit crunch seems to be easing a little. Some countries are already out of recession, and the UK looks as though it is heading that way. However, after all we have been through recently there is still a lot of nervousness around, and very few commentators are predicting the boom times will be back any time soon.

Fortunately, unlike the big Western economies, Gibraltar has escaped lightly. Even in those countries worst affected it is, as always, those who have lost their jobs who have suffered the most. Others with secure jobs have benefited from record low interest rates.

The heart attack suffered by the financial world has brought everyone down to earth sharply after the previous years of booming spending and borrowing. Against this background life has to go on. What has happened has merely brought home the message that we should be doing more saving and investing, and less borrowing and spending. However, our confidence about saving and investing has suffered a setback. Stock markets and property prices have fallen sharply, leaving all of us feeling poorer and undermining our confidence. The question is, now, what should our strategy be when it comes to saving and investing?

Over the last two years being invested in cash (bank or building society deposits) has generally been a pretty good place to be. At least this has protected investors from falling stock market and property prices. However, because of the very low level to which interest rates have fallen, deposits have realistically only serve to

protect rather than grow wealth. As in the case in Gibraltar it helps a lot if interest income is free of tax.

For those not invested in cash the past two years have been painful. Those choosing to invest in residential property in Spain have seen values fall sharply. Those particularly extended with high levels of mortgage borrowing have been lucky, as interest rates have fallen to exceptionally low levels, but this will not last. Those looking to retrench (or "rebuild their balance sheets" in the phrase that is popularly being bandied around at the moment) may find this will take time. In countries like the UK when the property market does recover a lot of property will come back on the market. Some of those who cannot sell and have decided to rent have experienced downward pressure on rents, and this may continue. On the bright side at least it looks as though prices both in the residential and commercial property sectors are bottoming out.

As always the stock markets tell all sorts of stories. They have actually been a wonderful place to be invested so far in 2009. The UK, US and Japanese markets are all up around 10 to 15% so far this year, returns that anyone with money on deposit with envy. The emerging BRIC economies (Brazil, Russia, India and China) are all up by more than 60%. The Far East has done nearly as well. Closer to home if you were a really clever stock-picker and had invested in RBS at the right time in January this year you would have quintupled your money by now.



## When it comes to providing for our futures we need to save, save enough, and save systematically

But, as Disraeli said, there are lies, damned lies, and statistics. By the same token whilst it is cheering that the index is now back over 5000 the UK FTSE 100 is still below where it was little over a year ago, and 20% below where it was two years ago. The level of the FTSE 100 now is still about the same as when it was 12 years ago in September 1997.

So where does this leave us and every other ordinary man on the street who wants to know how best to invest for his future over the long term?

The experience of the recent past has led many people to ask some fundamental questions about how to invest. There has undoubtedly been a flight to safety in the form of cash deposits and government debentures. More caution prevails. After the Icelandic bank fiasco some people may have briefly despaired and flirted with the idea of either spending the lot or keeping their money under the bed. Sensibly most people have done neither of these. However even leaving money in the bank over the long term can be a costly mistake. If you are prepared to take some risk the difference in investment returns can be dramatic. If you earn only an additional 1% per annum on a chunk of money you set aside one month towards your pension it will be worth a third more than otherwise after 30 years.

The reality is that after the traumas we have just been through nothing has really changed. There are no new answers and no magic wands that can be waved. When it comes to providing for our futures we need to save, save enough, and save systematically. It makes sense always to give savings a kick-start by taking advantage of saving incentives in the form of tax relief.

For savings and investments generally the key points for most ordinary people are to ensure that investments are well diversified. People should not put everything in one property or stock market basket. People should not have unrealistic expectations about investment returns, should not take unnecessary risks, and should not invest in anything they do not understand. When investing over the long term such as for a pension, investing is every bit as much about time in the market as market timing. So the key message is to not stop investing, and not let downturns in the market — even the bad jolts we have just experienced — put you off. ■



*Anthony Drew is a Chartered Financial Planner at European Financial Planning Group. He holds the Investment Management Certificate of the UK Society of Investment Professionals. Returns and figures in the above article as at 18th September 2009.*