

When Storm Clouds Gather

Looking out of the window it's a bright, late summer day in Canterbury. Having enjoyed a weekend working in the garden and warm evenings around the BBQ, it's easy to imagine that such great weather will never end. Of course autumn is just around the corner with golden leaves starting to appear and hints of shorter days on the way.

There are many commonalities between weather and long term investing. Bright summer days can be compared to strong investment markets while rainy days can be compared to decreases in share prices.

Since August, storm clouds have hovered over world share markets with claps of thunder reminding investors that investments can fall as well as rise. During such times it is common for forecasters to focus on the immediate present, predicting the worst and sensationalizing the moment. Reviewing previous months, the NZX 50, the index that tracks the top 50 shares in NZ, fell by 4.5% during August and a further 1.1% in September. October bounced back strongly with a 7% gain and the 'good weather' continued through to the end of the year. While January and February were disappointing from an investment point of view, over the longer term, investors should be able to look back and say, 'not a bad summer'.

To hear that the NZX 50 has increased by 7.89% over the last 12 months (to March 2016) might surprise a lot of people, especially considering news headlines about economic conditions, interest rate falls, milk prices, and the problems in other parts of the world. The New Zealand sharemarket has characteristics that are considered more defensive than other countries while robust earnings from our companies have provided investors with steady returns. However other markets in the world have not performed as well over the last 12 months; Australia is down by 11%, US down by 2.6% and the UK down 10%.

But long term investing is not about one day of weather, or even one season. It's about having a goal, setting an investment strategy and then sticking to the strategy with the knowledge that sometimes it will rain, sometimes it will shine, but over the course of a full season, the good weather will prevail.

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