



You need a fistful of courage when it comes to investment

## Playing the market

Could investing in the stock market be risky, in light of the current 'credit crunch' situation?

At the time of writing, the stock markets are showing great signs of nervousness and probably should be on Prozac. When the markets are

uncertain of the future, there are bouts of pessimism followed by optimism, followed by pessimism. Consequently, we see big swings in daily prices of secu-

rities. We know that the main reason for this has been the 'credit crunch'.

Stock markets go through cycles of good times and bad times. With this in mind, the thing to remember is that unless capitalism is completely broken, it will recover. We have seen this on numerous occasions from the period around the First World War, the crash of 1987 and, most recently, the bursting of the dot com bubble from January 2000 to March 2005. In every case, the market recovered, and recovered strongly.

Corrections will occur and there will be periods, sometimes extended, of negative performance. However, the economy and therefore the stock market will bounce back. The question now, is what do you do if you are already invested? I would recommend that you review your portfolio to make sure it is in line with your long-term aims, but I would not recommend bailing out.

Why? Because it is impossible to time the market. I've recently read a study of the Dow Jones covering the first quarter of 1981 through to the end of the second quarter in 2005. The report shows that if someone had invested all through this period, which had good times and bad times, the annualised return was 10.4 per cent. However, if an investor jumped in and out of the market to avoid the falls, but missed the best 10 days in that period, their annualised return would fall to 7.7 per cent.

In addition, this doesn't take into account the costs of buying and selling. A buy and hold strategy is more efficient from a cost and tax point of view. The more cautious may want to just stick the money under the bed, but you must remember that inflation will continue to eat away at your money's real value.

The moral of this story is that if you are looking to invest, you must be looking at long-term horizons and not short term. You just need to be prepared for some volatility in the values of your portfolio. But don't panic – have the belief in what the market can and has done consistently. ■

### About the author

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1. Çağlar E et al. Oral Disease 2005; 11: 131-137.

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