



## Paul Clitheroe

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# seize the sharemarket opportunities

Successful investors tend to regard downturns in the same light that most of us view department store sales – a chance to buy something for a lot less than you'd expect to pay normally.

At present the world is on sale. US stocks are currently selling at 1997 prices. A big discount is also available in our market with prices well down on their peak. While disastrous stories dominate the headlines, many companies are actually bigger and better than they were years ago. If you believe, as I do, that we will continue to consume and support the products of quality companies through our daily activities then economies and businesses will continue to grow over time.

While I understand the pain investors have felt as markets plummeted, the fact is that from this low point the return potential from shares is very positive. For example, if it takes seven years for the market to return to its high point (6845) from where it sat in early March then it equates to an annual return of more than 11% per year. If it takes 10 years to get back to the peak then it is still an 8% return per year. That's just the price appreciation as you also benefit from dividends and franking credits further boosting the return. Even if the market only partially recovers to 5000 points then the seven year return is 6.7% per annum.

A look at the 10 biggest stocks highlights this point. Take the big four banks. The price of ANZ has fallen from its 12 month high of \$24 to around \$14. Similarly CBA is down from \$46 to \$34, Westpac from \$26 to \$18 and NAB is \$19 compared to its 12 month high of \$34. Resource and energy companies

have plummeted with commodity prices. BHP is trading at around \$31 compared to its year high over \$50 and Woodside Petroleum is down from its high of \$70 to \$37. Cheaper prices mean you get more for your money.

Sure, some of these prices may have been higher than could be justified due to the long boom and investors borrowing to buy shares. Still the chance to buy into good businesses at these prices is pretty compelling with a long term view.

That's not to say the sharemarket isn't immune from a recession. Companies will feel the pinch of lower spending. Many will be forced to reduce dividend payouts. Already ANZ Bank has announced a cut of 25% in its dividend. Still the yield from shares will be higher than you'll earn on many other investments. As a guide, the yield on ANZ shares is still estimated to be around 8%. And it's a more tax-friendly return than you'll get on money in the bank.

Of course, while the market has been falling the share price of some businesses held up better as investors sought safety. Healthcare companies like CSL as well as businesses like Woolworths, Lion Nathan and Coca-Cola Amatil tend to do better in difficult economic times as people still eat, drink and get sick. Yes, I think we have more shocks and more volatility to come. Markets may well test new lows, but at these prices history and logic indicates that patient investors should do well.

One of the most sensible ways to build a share portfolio in the current climate is through dollar-cost averaging. It means investing regularly over various intervals – say, monthly, quarterly, or every six

months. The beauty of this strategy is that the more the market falls, the more shares you get to own; and as it moves up you buy less.

If you're concerned about which shares to buy, think about a managed share fund. Some will let you get started with \$1,000, in some cases less. Many offer a regular savings plan that lets you put dollar cost averaging into effect.

Things could get worse as we wash out the excesses of the last boom but ultimately history shows that the economy and the sharemarket will turn the tide. As Warren Buffett says 'be greedy when others are fearful and fearful when others are greedy'.

### Paul's tips

- ~ Successful investors tend to regard downturns as a chance to buy quality at reasonable prices.
- ~ Publicly listed companies will feel the pinch of a recession, and dividends may be cut, but those that survive the downturn will emerge as more efficient businesses.
- ~ With the sharemarket still volatile, dollar cost averaging is a sensible approach in the current climate.
- ~ If you're concerned about which shares to buy, think about a managed share fund. Some will let you get started with \$1,000.

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