



Paul Clitheroe

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

shares – still okay, and looking up

Australian shares have enjoyed a fabulous run lately, with the sharemarket rising around an amazing 25% over the last three months. The big gains have also provided a much-needed boost to investor confidence.

According to the latest Westpac-Melbourne Institute Consumer Sentiment Index, 12% of us reckon shares are the best place to park our savings at present. That's about double the proportion who nominated shares back in March.

It goes to show, we love shares when the market is delivering strong returns, but loathe 'em if the market takes a dip.

To be fair, the sharemarket plunge, from top to bottom to date, could hardly be called a 'dip'. It's a bit like calling a cyclone a 'breeze'. The market overall lost almost half its value, with many individual companies doing worse.

Despite this, I still reckon shares are a sound investment if you're prepared to hold onto them for at least five years. Research by ipac shows, over the long term, Australian shares return on average 8% per annum above inflation. Historically, equities have delivered better returns,

over time, than cash, and investors enjoy tax concessions on dividends and long term capital gains.

Shares have the added advantage that they can be bought and sold in an instant. Furthermore, transaction costs are peanuts compared to assets like property, where legal fees, agent's fees and stamp duty and can leave you reeling.

While I like long term share investment, clearly it is possible to make a quick buck on shares, just like you can win at the races or on the roulette table. In other words, quick gains require considerable luck, and the whole exercise becomes more like punting - which I don't like. What's more, gains made on shares held for less than 12 months are fully taxable. If you hold shares for more than one year, you'll only pay tax on half the profit, so that's another good reason to take a long term approach.

If you are thinking of share investment for the longer term, now's probably a better time than most to do it. Prices are still comparatively cheap, and hopefully, by now, most of the corporate skeletons have jangled out of the closet.

That's not to say that the road ahead will be smooth for the Australian sharemarket - it's likely to remain bumpy for a while yet. But if recent gains can be consolidated, history may show that the worst of the bear market is behind us.

Paul Clitheroe's 'Making Money' for the week beginning 22 June 2009



Disclaimer: The material contained herein is of a general nature only and is not intended to be relied upon as a substitute for professional advice. ipac has not taken individual circumstances, objectives or needs into consideration. Before acting on any advice, you should consider whether the advice is appropriate to your individual circumstances. You are advised to seek independent professional advice. While ipac believes that the information contained in this publication is correct, no warranty of accuracy, reliability or completeness is given, and except for liability under statute which cannot be excluded, no liability for error and omissions is accepted. **ipac securities limited** ABN 30 008 587 595 AFS Licence No. 234656.

ipac securities limited Level 31 Grosvenor Place 225 George Street Sydney NSW 2000 Australia
Sydney Office Locked Bag 15 Grosvenor Place NSW 1220. DX 10328 Sydney Stock Exchange.
Telephone 02 9373 7000. Facsimile 02 9373 7111. Adviser Services 1800 812 950. Investor Services 1800 624 542.