


# AonSaver Update

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Quarterly newsletter

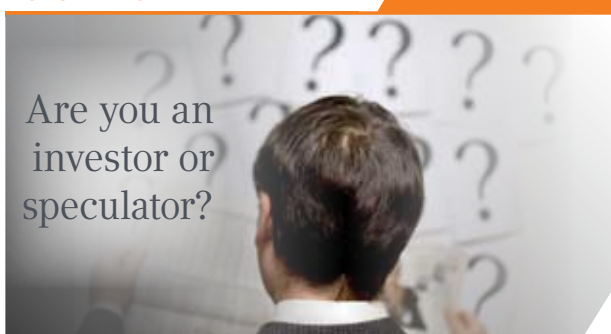


Are you an  
investor or  
speculator?

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Are you an investor or speculator?

**Most people would probably say they are investors. However volatility in the markets over the past year or so is testing investors' resolve and revealing many closet speculators.**

### **So what's the difference between the two?**

**Investors** generally use a consistent long-term strategy in line with their individual goals. They seek to build a more secure financial future through steady purchases of well-diversified investments. Super fund members are generally considered investors because a super fund is about the long term accumulation of wealth.

**Speculators** are less concerned about consistency. They are prepared to take a risk in the hope of making quick or large gains. For example a speculator is more likely to switch investments in reaction to a piece of news or a "hot tip" they receive.

### **The risk of trying to time the market**

**Speculators must accurately predict the future, not once, but twice.** First, they must correctly determine when to sell. Second, they must accurately determine when to buy back in. Their timing must be nearly perfect which is particularly difficult in a volatile market.

Of course, changing your investments during a volatile market is not always speculating. It can be

the mark of an astute investor if the reasons for your changes are consistent with your individual long-term goals. Nor does it mean super investors should necessarily 'set and forget'. It can be a very healthy thing to review your super investment strategy from time to time to make sure it still feels right for you.

### **The benefits of a consistent strategy**

**One example of a good long-term investment strategy is investing a set amount at regular intervals.** If you maintain this schedule during a market dip you will buy more units when prices are lower and fewer units when prices are higher. So you are more likely to get a satisfactory average price overall instead of buying all the units at the high levels of the market. This is called Dollar Cost Averaging which most super fund members benefit from as their contributions are generally made at set regular intervals throughout the year.

Mapping out an investment plan can be the easy part. Sticking with that plan is what separates investors from speculators.

The following quiz offers possible "speculator" versus "investor" reasoning for changing investments. Which answer best represents your decision-making process?

## Quiz: Are you a speculator or investor?

*Q1. You discover that your long-term goals will require more money than you had anticipated. You're debating your options.*

- a) The share market has posted 18% gains before. You'll just increase your risk level and count on those hefty gains to make up your shortfall.
- b) Your investments are already appropriately allocated for your personal risk tolerance. You will increase the amount you invest in order to meet your new requirements and maintain your current risk level.

*Q2. The share market has been unstable and you think you should reduce your overall exposure and move to cash.*

- a) You want to get out before a possible crash. Besides, you can always buy back into shares if the market stabilises.
- b) You know long-term investment discipline is more important than ever in a market crisis. You don't want to sell low, realise your losses and miss the market bounce.

*Q3. The share market is climbing rapidly. You want to be part of the action.*

- a) You obtain a large sum of money and invest it all in shares.

- b) You continue to invest regularly and consistently. You know that your money will buy more when shares are low and less when they are high, giving you a potentially lower per-share cost.

*Q4. Your super fund isn't performing quite as well as others in the same market. You think about changing.*

- a) You read a new article describing the latest hot fund performers. You'll jump on the bandwagon.
- b) You evaluate your fund on a number of criteria such as long-term returns and total costs. You consider value for money, e.g. insurance terms, services, features and benefits.

*Q5. A friend has a hot tip on a particular share. He suggests that you buy as much as you can.*

- a) You sell large portions of your existing assets and buy the suggested shares.
- b) You have diversified your assets strategically in an effort to reduce your risk. If you buy some of the shares, you can do it without affecting your overall asset allocations and risk level. <

Answers: a) Speculator b) Investor