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History says: buy shares now

September 16, 2009

There is no denying that markets move in cycles. Whether it's the housing market or the share market, there have always been ups and downs over time. If you understand what has happened before, it can help you make decisions for the future. And history says, now is the time to buy shares.

Strap on those stilettos and sharpen up your finances... journalist and writer Anneli Knight is a mission to help women deal with the bottom line. A regular contributor to *The Age* and the *Sydney Morning Herald*, Anneli Knight is the co-author of *Flirting with Finance*, a book on women and finance. She has worked as an intellectual property lawyer at Blake Dawson and in various roles at stockbroking firm Goldman Sachs JBwere.

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Rod North, author of *Understanding the Investment Clock: Your Road to Recovery*, has had 25 years experience in the investment industry and says there may not be another chance like this in your lifetime to start investing.

His book explains the concept of the investment clock (pictured left) as a way to understanding the phase the economy is going through.

He says we are now between 7 and 8 o'clock on the investment clock - in recovery phase, which makes now one of the best times to start investing in the stock market. He says we have moved out of our bear market phase (a bear market is a period when shares fall by 20% and continue to fall) and have swung into a bull market (when shares rise by 20% and continue to rise).

The Investment Clock was first created by the *London Evening Standard* newspaper in 1937. The clock showed that it generally takes the economy between six and eleven years to move through a full cycle: from boom to slow down to recession to recovery, then back to boom. However it usually takes much longer to go from boom to recession than it takes to build up again. Rod has created an online interactive version of the Investment Clock that explains each "hour" of the clock in detail.

"Generally from the top of the boom to the bottom - the recessionary phase - that can often happen quite quickly as in the case of 2007 to 2008. In 16 to 18 months we went form the top of the boom pretty much to the bottom. But it can take three to five years to rebuild through recovery and boom," Rod says.

"Over 100 years, it shows that it generally takes about 33 months to recover the previous high."

On this basis, the March 2009 low of the All Ordinaries Index of 3109 would be returning to the November 2007 peak of 6800 by December 2011.

"A lot of people don't realise that we've seen all this before and I do believe history is a very good reference point. We can look back at history over 100 years of statistics and establish information that will help guide investors about when to enter the share market and when to exit it," Rod says.

Rod also talks about two phases: greed and fear, and how these can negatively cloud people's investment decisions.

The greed phase occurs on the Investment Clock between 9 and 12 o'clock, during the boom.

"There are very strong indications during the greed cycle - during the boom phase - that you are often getting people who are passing on information to potential investors about how easy it is to make money in shares. But those people are not getting the right advice. I call it 'lambs to the slaughter', they take tips from the tennis coach or the taxi drivers," Rod says.

The fear phase occurs during the recession, between 3 and 6 on the Investment Clock.

"During the fear cycle, which was the period we went through from late 2007 into 2008, people think the whole world could come to the end. But don't realise that people often over react, and that the companies, when they recover, can recover very swiftly."

At 7.30 on the Investment Clock we are out of both these fear and the greed phases. We know that the share market has recovered by almost 40% over the past six months since it's March low. And if history happens to repeat itself, there could be some profitable times ahead in the recovery run. Are you ready for the ride?

http://blogs.theage.com.au/small-business/wellheeled/2009/09/16/historysaysbu.html