

## MEDIA RELEASE

### CFA Institute offers top five facts when investing in turbulent markets

- *Planning and recognising next steps are often the most important parts of successful investing*

**Sydney, Australia, October 16, 2008** – In the wake of recent market and firm failures, CFA Institute, the global association for investment professionals, has issued five facts investors should know when making investment decisions. Nearly 30 percent of CFA Institute members manage assets for individual investors.

“Investors with properly diversified portfolios that match their risk tolerance are better able to focus on rebalancing their portfolios in response to turbulent markets,” said Stephen Horan, CFA, head of Private Wealth Management at CFA Institute. “Even in times of exceptional market stress such as we are experiencing now, the key fundamentals of investing can serve as sound guideposts. Focusing on these top five facts and seeking the advice of a trusted investment professional will help investors stick to their long-term investment plan and meet their financial goals.”

**1. Having an investment policy statement makes weathering financial storms easier.** From the outset, every investor should form an investment policy statement that serves as a framework to guide future decisions. A well-planned strategy takes into account several important factors including goals, time horizon, tolerance for risk, amount of investable assets, and planned future contributions. “An investment policy statement conceived in normal market conditions provides critical guidance in severe market conditions that create a stressful decision-making environment,” said Horan.

**2. Knowledge (of your risk tolerance) is power.** “There is no such thing as risk-free investing, but knowing how much risk you are both willing and able to accept is a necessary step in building the portfolio that is right for you. It makes the difference between sensible investment decisions that provide long-term benefits and spur-of-the moment choices that can bring poor results,” said Horan.

Determining your appetite for risk involves measuring the potential impact of a real dollar loss on both your financial condition and psyche. In general, individuals planning for long-term goals should be willing to assume more risk in exchange for the possibility of greater rewards. However, their psychological makeup may not allow them to do so. You certainly don’t wait until a sudden or near-term drop in the value of your assets to conduct an evaluation of your level of tolerance for risk.

Nonetheless, Horan added that determining risk tolerance “involves contemplating the impact on your wealth and psyche of severe financial crises that might occur every decade or so.”

**3. Investing in a diversified portfolio of securities rather than individual stocks mitigates risk.** Investing in only a few individual stocks increases risk for which an investor is not rewarded compared to investing in a diversified mutual fund or index fund. Investors should incorporate different asset classes and investment styles in their portfolio that do not tend to move together so that market swings in one part of their portfolio are offset in another part. Failing to diversify leaves individuals vulnerable to

fluctuations in a particular security or sector, such as financial services. Also, investors should be mindful of not confusing mutual fund diversification with portfolio diversification. You may own multiple funds but find, on closer examination, that they are invested in similar industries and even the same individual securities.

“Be careful to avoid investing in too many products, which can create unnecessarily high fees relative to the size of your portfolio,” said Horan. “It is relatively easy to create a diversified portfolio with only a few properly chosen investment products. Often, this can best be done with the advice of a professional advisor, such as one with the Chartered Financial Analyst designation.”

**4. The fundamental principle of investing is buy low and sell high.** So why do so many investors get that backwards? The main reason is “performance chasing.” People tend to invest in the asset class or investment style that has recently performed well. “For example, funds flowing into mutual funds peaked just before the technology bubble burst in 2000 and reached a low point just before the market turned around in 2003,” Horan said. “Someone who has a long-term investment strategy, but doesn’t have the tenacity to stick with it has a tendency to buy high and sell low. They throw their strategy out the window in response to short-term changes in the market, investing tactically instead of strategically. Actively reviewing one’s portfolio and doing nothing is a better strategy than acting on emotions.”

When investing in individual stocks, many professional and novice investors alike have difficulty admitting they have made a mistake by selling a stock at loss. Many want to hang on until they break even. Smart investors realise when they may never recoup their losses. Not every investment will increase in value. Sometimes, it is far better to take the loss and redeploy the assets toward a more promising investment.

**5. Frequent trading can be costly.** Trading too often cuts into investment returns more than anything else. A study by two professors at the University of California at Davis examined the stock portfolios of 64,615 individual investors at a large discount brokerage firm. They found that transaction costs decreased investor returns by 2.4% per year and that these investors underperformed the market by 1.8% per year. Again, the solution is a long-term buy-and-hold strategy, rather than an active trading approach.

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**Additional Resources:**

[“Analysing Investment Research Can Help Investors Weather a Turbulent Market, Says CFA Institute”](#)  
[CFA Institute Investor Education Resources](#)  
[Private Wealth Management Educational Resources](#)

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Setting a higher standard



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### **CFA Institute**

CFA Institute is the global association for the investment profession. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 96,500 members, who include the world's nearly 83,000 CFA charterholders, in 134 countries and territories, as well as 136 affiliated professional societies in 57 countries and territories. More information may be found at [www.cfainstitute.org](http://www.cfainstitute.org).

### **About CFA Society of Sydney**

CFA Society of Sydney (CFA Sydney) is a member society of CFA Institute. It was established in 1996 and has over 830 members, of whom 85 percent hold the CFA designation. CFA Sydney is a member-focused organisation, run by a group of dedicated volunteers elected by the members. The society is an association of local investment professionals engaged in a wide variety of roles, including portfolio management, security analysis, corporate finance, and investment advice. CFA Sydney aims to promote the highest ethical and professional standards within the investment industry. It encourages professional development through the CFA program and continuing education; it facilitates the exchange of information and ideas within the local investment community and beyond; and it works to further the recognition of the CFA designation and what it stands for. As one of 135 CFA Institute member societies, it also connects members with a global network of investment professionals. Visit [www.cfas.org.au](http://www.cfas.org.au) for further information.