ANOTHER ROLLER-COASTER RIDE

Q With market volatility unlikely to abate this year, what investments and strategies are you likely to focus on for your clients?

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2012 is likely to be another volatile and challenging year for advisers, with Europe and sovereign debt likely to dominate the headlines once again. Whilst this short-term media noise will create uncertainty and unease amongst investors, it is important that we as advisers don't lose sight of the long-term objectives of each client.

Removing emotion from the investment process, as many investors reach their 'tipping point', will be one of the main challenges that advisers face this year. In prolonged periods of uncertainty there is a danger that people will act on emotion and make irrational investment decisions. This has the potential to undermine the long-term financial security of many Australians.

To minimise this risk in 2012, investor education will be a key focus together with ensuring that client portfolios are diversified, reweighted regularly, and the dangers of trying to time the market are explained.

When additional monies are invested I would look at using a 'dollar cost averaging approach'. This will minimise the risk of investing a large lump sum at any specific point in time given the volatile nature of investment markets and the uncertain economic outlook. When investing, we would also look at focusing on quality investments with a reasonable yield.

Interesting times ahead.

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Each client's circumstances is different and therefore there isn't a one size fits all strategy that is being recommended in the face of current investment market volatility. Clients are facing the longest share market downturn since the late 1980s and early 1990s. For some, patience is starting to wear thin.

Clients who rely on a combination of annuity income, part age pension and superannuation pensions (such as ComSuper) are in the best position to ride out a prolonged downturn. I reassure my clients who happen to be in this position that they have less to fear. Clients who are many years away from retirement also have time on their side. It's those who are coming up to retirement and already retired who are generally most concerned. Fortunately clients who are still working, in good health and who enjoy going to work, elect to continue to do so until there is a share market recovery.

Those in retirement who are reliant on an allocated pension try and cut back the income they draw. For some clients, after more than four years of volatility, they are now moving to cash and term deposits as they can't stomach the roller coaster ride and possibly losing more money in the short-term. These clients could be getting out at precisely the wrong time if a permanent upturn in the share market is around the corner.

The fact is the longer the current downturn continues, the nearer we are to the next permanent upturn in the market. The trouble is the present downturn could go on for many years if European politicians can't come up with a solution to their debt crisis that financial markets will accept as a credible and long lasting fix.

Share markets can stay down for years as witnessed between 1929-1945, although during this period there was a depression and a world war, neither of which are envisaged now.

So in the face of the most adverse conditions I have faced in my 14 years as an adviser, I'm carrying out whatever my clients wish to do, so they can sleep easily at night, after explaining all the possible options to them.