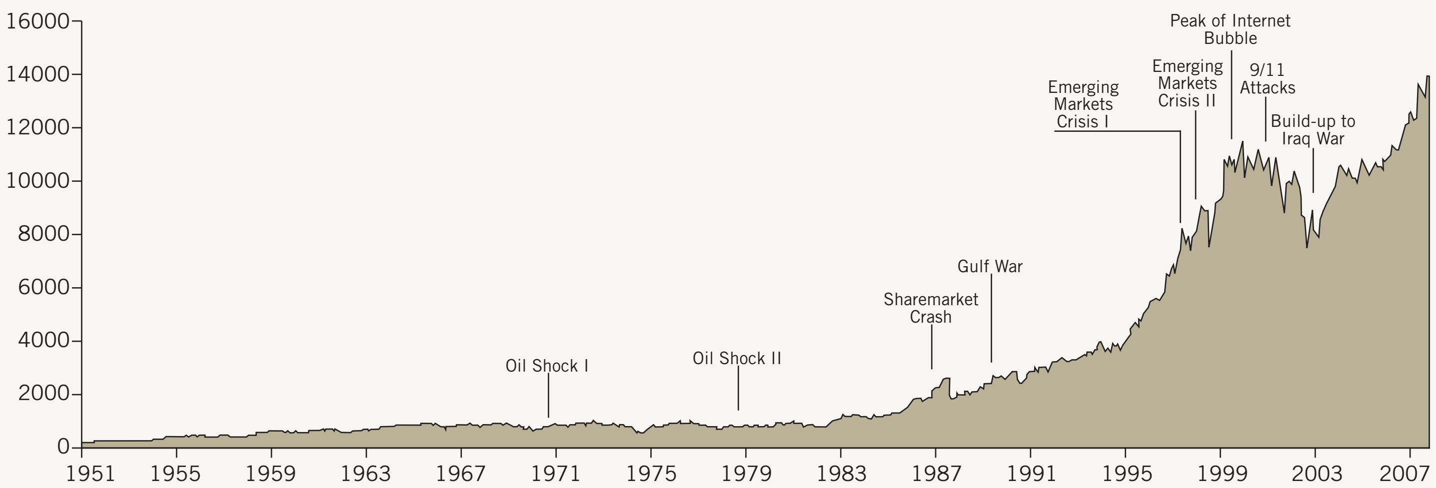
Headline Investing

'Newspapers are unable, seemingly to discriminate between a bicycle accident and the collapse of civilisation.' – George Bernard Shaw

Dow Jones Industrial Average for the period 2 January 1951 to 1 october 2007



Date	Quote/ Headline	Dow Jones Industrial Average
1951	Don't fall for it when they tell you – buy now! Prices are going higher because prices are heading for one of the worst plunges you've ever seen	262
1954	Will this major shake-up in America's wealth wipe out your savings and cripple your future?	330
1957	USSR launches Sputnik 1, US dominance in doubt, Dow off almost 10 percent in under a month	419
1962	Cuban missile crisis jams indexes sharply lower	590
1966	Increased Vietnam bombings and talk of high taxes rout markets	785
1974	Nixon resignation, runaway inflation and the crisis of confidence in the economy forever change in the market	616
1981	Joe Granville's 'abandon all hope' message sparks a giant sell-off on record volume	875
1987	Is it 1929 all over again? Huge bear market feared	1,805
1990	High interest rates, the threat of war and increased unemployment are market killers	2,633
1994	If this is not a high-volume, churning, distributional, quadruple top, I'll eat my charts	3,708

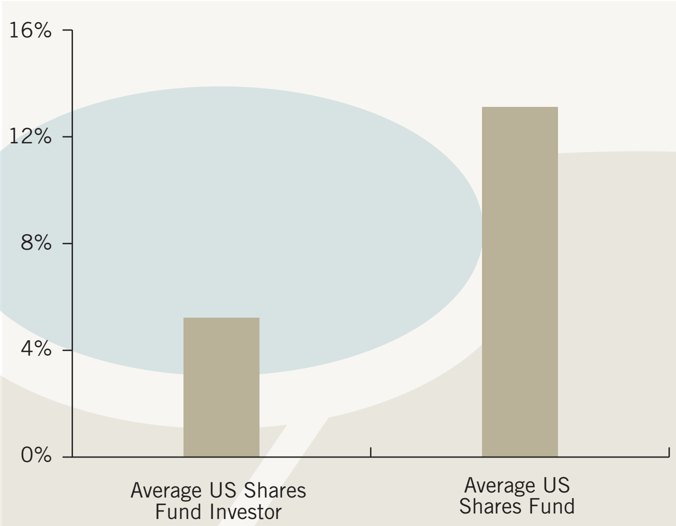
Date	Quote/ Headline	Dow Jones Industrial Average
1994	Is this the end? Three savvy pros look at the bear that's begun	3,762
1996	Two bears forecast market mauling – take profits now rather than be panicked into selling later at much lower prices	5,300
1997	Value investor warns bear is no longer hibernating	6,587
1997	Technology rout sends stocks reeling	6,733
1998	Stocks tumble on worries of rate rise	8,898
1999	Ending Up With the Wrong Kind of Bang	10,913
2000	Crash? A Generation Says: Whatever	11,025
2001	Investors Try To Adjust To a New Set Of Realities	8,235
2002	Stocks Tumble, And the Fallout Is Going Global	7,784
2003	Shares Drop on Concerns War Will Be Protracted	8,201
2004	Global Markets Take a Tumble On Investor Fears	9,990
2005	Aging Bull Stumbles	10,087
2006	Shares Slide as Price of Oil Feeds Fears of Higher Rates	11,270
2007	Subprime and Profits Make Investors Glum	13,716

After reading and digesting these headlines, what investment decisions would you have made at the time – sell, hold, or purchase? Would you have reacted with panic, ambivalence, or enthusiasm? History shows that despite the doom and gloom painted in the headlines, markets have recovered from these falls and gone on to new highs. In fact, the DJIA is currently near 14,000 points.

When investing, you often need to ignore the headlines and remain focused on the goals set when your original investment decisions were made. Reacting to today's news when your goal is 12+ years in the future may result in an irrational decision being made which will compromise your ability to achieve your long-term financial goals.

Research conducted in the United States compares the returns of individual investors with returns achieved through professional investment management over a period of 16 years. The results show that, over the same period, professional investment management outperformed individual investors by 7.8% per annum. Why? Individual investors tend to lose focus on long-term goals and make poor or badly timed investment decisions, such as buying when assets are expensive (but popular) and selling when assets are inexpensive (but distressed).

Funds Outperform Individual Investors
(Annualised Returns from US Shares) 1984–2000



Source: Dalbar, Bogle Financial Center, Mercer Investment Consulting and AllianceBernstein

The focus of this research was share markets, but the same investor behaviour is common across all investment markets.

Recent headlines have focused on volatility in the credit markets – commonly referred to as a 'credit crunch'. While we're used to seeing volatility in share markets, it has been historically less frequent in credit markets and has come as a surprise to many investors. The previous 'credit crunch' occurred during 1994.

These 'crises' or, more specifically, 'corrections' occur periodically in financial markets and are part of the economic landscape. These events occur for one of two reasons – firstly, because of geo-political events such as the September 11 terrorist attacks or wars; and secondly because of imbalances which build up in financial markets over time. Such imbalances can eventually result in the market 'correcting', often in a dramatic and unexpected manner.

While no one likes these events occurring and affecting the performance of investment portfolios, investors should expect some volatility in investment markets approximately one year in three. On a more positive note, however, these crises never last. Historically, markets have rebounded to new highs over time.

A significant role of your financial planner is advising you through good times and bad. You may think your adviser is pessimistic or conservative by nature when they mention that current returns are 'good, but unsustainable'. However, our aim is always to bring you back to the original range of returns and timeframe upon which your financial plan is based.

Conversely, when returns are down, your adviser may be optimistic and reinforce to you that exiting your investments at this time will crystallise what is a paper loss into an actual loss. Again, the reference point for the conversation is the range of returns and timeframe upon which your original financial plan is based.

Regrettably, your financial adviser cannot control financial markets or foresee the future. What we can do, however, is provide practical advice based on your personal circumstances in light of prevailing market conditions.

If you wish to discuss investing generally or your investment portfolio specifically, please don't hesitate to contact a Myles Wealth Management financial adviser.