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ART EQUITY

Market Volatility and Alternative Investments

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There has been a lot of news about the global financial markets meltdown and volatile markets – a severe downturn in the world's equities' markets one day is followed by a rebound the next, only to decline again shortly thereafter.

According to most analysts the outlook for the global economy is for an economic slowdown or even a recession. Although authorities insist that the fundamentals of the Australian economy and that of its banking sector remain strong, Australia has and will be affected by a sustained global downturn and global market forces. This is particularly true if the Asian economies, especially the Chinese economy slows down.

The Australian dollar in recent times has demonstrated this, with the Australian dollar falling by more than 20% from being close to parity with the US only a few months ago and then partially recovering.

It is natural that during times of great market volatility and/or downturn that investors' attention becomes more short-term focused. During such times investors tend to constantly review their investment portfolios for performance and liquidity (although they may have purchased such investments with a long-term view).

The other focus tends to be on the dollar or percentage "loss" investors have sustained. Although in many instances the "loss" may still be unrealized. A major decline in the value of your assets will be more critical if you are retired or approaching retirement. However if you still have a long way to go before retirement, it is less relevant to measure long-term investment performance based on what is happening over a short period of time.

It is important in any investment strategy to know your goals and to keep your time horizon in mind. Previous downturns have taught us that panic rarely leads to good decisions - and particularly for equities, it is the time in the market rather than timing of the market that makes the difference.

Good assets with strong fundamentals will always serve you well in a well diversified portfolio. A diverse portfolio with uncorrelated assets will help you to lower overall risk.

Alternative investments such as art are tangible and real assets. They can add diversity to investment portfolios and are usually not highly leveraged. Art tends not to fluctuate as much as the stock market. Art investment portfolios can provide strong income streams plus potential for long-term capital gains.

What should investors do in the current economic environment? The answer depends on your investment goals, your existing investment portfolio and your investment horizon. However some fundamentals should still be followed, these include:

- Do not panic ─ remember your long-term goals.

- Review your portfolio regularly ─ even during good times.

- Know your risk profile ─ this may change over time.

- Have reasonable expectations ─ an aggressive portfolio during good times may perform very well but it may also perform very poorly during bad times.

- Diversity ─ have a well diversified investment portfolio with a mix of assets that are uncorrelated.

Remember stock markets have "crashed" before and will do so again. Although no two "crashes" are similar, markets have always grown again.