

Majority of the funds adopt medium to long-term investment horizon in their investment objectives. With the recent market rebound, the market is expected to experience some short-term volatilities ahead. Does long-term investment really work under these sorts of market conditions?

Trying to "time" the market has often proved to be unsuccessful for investors. Trying to pick the best time to enter the market in an uncertain environment may prove to be even more inconceivable. That is why investing for the long-term is a more fruitful investing strategy. Moreover, this concept will work to its best with a diversified portfolio and following an asset allocation that is in tune with your risk tolerance.

A 2007 research in the US showed that the average mutual fund investor purchased a fund and held it for just 4.3 years before selling. That was during good times - the holding period slipped to just 2.5 years during bear markets. Hong Kong investors may have a shorter holding period. Neither time period suggests that the average fund investor understands the objective and benefit of long-term investing or the risks involved in short-term trading in pursuit of performance.

Market conditions change all the time. Factors beyond an individual company's control, such as bad weather, geopolitical problems, war, terrorism etc can cause temporary setbacks. Short-term market performance is unpredictable. Short-term price swings occur, sometimes for seemingly irrational reasons or reactions, which is why long-term investors ignore short-term distractions. To get a better sense of the long-term, take a look at the performance of any major market index over a 20-year period. The trend is for the numbers to move upward. Sure, there are peaks and valleys, but overall, the direction of the movement is up. An example of this would be the MSCI AC World index, which scored a 20-year US dollar return of 173.7% from 28 April 1989 to 30 April 2009, and over this period, there were market events including but not limited to the early 90s Japan depression, 97 Asian financial crisis, 2000 tech bubble and last year's global subprime meltdown.

Although some professional investors manage to profit by timing the market but one wrong move, the portfolio's value could suffer significant damage. Generally speaking, under normal market situation, long-term investment (especially those who invest in a diversified portfolio) can ride out short-term market volatilities. Ideally, this coupled with monthly or regular contributions to invest into funds to make the most out of dollar-cost averaging. Dollar-cost averaging is a technique of buying a fixed amount of a particular investment on a regular schedule, regardless of unit price; thus purchasing more units when prices are low, and fewer units when prices are high. The dollar-cost averaging effect averages out the costs of the units and therefore reduces the effects of short-term market fluctuation on the investments.

In addition, some investors like to switch frequently in order to get to the "hot" funds or best performers. By the time the average investor is aware of a top-performing fund or industry sector, he/she is looking at last year's winner. The gains may have happened already. The folks that made big money did it last year, last quarter or even last month. It doesn't take long before the investment is overpriced, overvalued and headed downhill.

Therefore, before making any investment decisions, investors should clearly define their investment objective and choose an investment product according to their risk tolerate level. They should not easily give up an investment strategy due to short-term market volatilities. Besides, it is crucial for investors to conduct regular portfolio review to see if they need to rebalance their investment portfolio due to changes in personal circumstances and risk tolerance level.

(Investment involves risk. Please refer to the offering document for further details including the risk factors.)

Hong Kong Investment Funds Association