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Practical Wealth Creation Ideas

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Taking the long-term VIEW

Consider these ten points when planning your investments. Understand the influence of business and market cycles.

Long-term investors understand that markets are cyclic

You have probably heard the term "bull market" with reference to a rising market and "bear market" with regard to a falling market. These primary trends are most obvious because they correlate to the business cycles of expansion and retraction.

Bullish trend The economy's expanding boom and retracting bust cycles recur, on average, every 4 to 7 years. The rising price of stocks during a bull market can occur over a period of three or more years. Bull markets generally precede and give impetus to an economy's robust period of business growth. Such was the bull market of 2014 when many companies and stock exchanges broke through their 52 week highs and some, their record highs. On June 4, 2014, Canada's main S&P/ TSX stock index reached its highest level since June 2008.

Source: Yahoo Finance

Bearish trend The bear market's period lasts on average just over a year. This is when share prices can go lower and may be followed typically by economic downturn. Don't confuse this

with a correction when investors reallocate sectors and/or investments. A correction of 10% is normal over a long bull run. The upside is that both bear markets and corrections present buying opportunities when fund prices are lower.

The "buy and hold" fund investor understands that business cycles and related stock market trends are quite normal. Even during the booming bull phase, a fund's unit price can drop slightly if there is a stock market correction. The fund's unit price can also rise remarkably during a stock market rally, right after a period when the market is bearish.

Here are some important questions to ask when planning to make an investment:

1. Can my money be tied up for periods of four or more years?
2. What are my retirement needs and how long do I have before I need to draw an income?
3. Is capital growth on investment a priority?
4. Do I want to receive dividends on my equity fund?
5. Do I have the patience to stay invested when the market drops?
6. How important is the security of my capital? Do I fear short-term loss?
7. Is the investment fund a proven performer over longer periods of time such as over five or ten years?
8. Does the fund hold equities issued by larger, successful companies with a value-oriented investment style? These, such as Canadian bank stocks, tend to perform well over longer protracted periods.
9. Does the fund hold equities issued by companies investing primarily for aggressive growth? These may experience more of a pullback in a correction.
10. Do I acknowledge that market fluctuations are normal?

Please seek professional advice prior to investing. Where mutual funds are considered, please read the funds' prospectus before investing. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments which are not guaranteed; their values change frequently and past performance may not be repeated. Any indicated rate of return is for illustration purposes only and is not intended to reflect future values of returns on investment. Financium, the publisher does not guarantee accuracy of information, and will not be held liable in any way for any statements or statistics in this publication, though we seek to present reliable, precise and complete information. Written permission of Financium who retains all rights, must be obtained prior to any reproduction. ©Financium. email: admin@adviceon.com [03/01/10]