What war in Iraq means for investors

With war now underway in Iraq, investors need to keep their nerve.

It's a time when some investors may question whether they should make some change to their investments. The short answer is: whatever you do, don't act hastily. While the tendency to want to do *something* is understandable, you first need to think through the implications of any action.

In themselves, volatility and uncertainty in the markets are no reason to abandon a well-thought-out, long-term investment strategy. Furthermore, successful strategies are all about acting proactively, not reactively.

Investment research house FundSource offered some sound advice in a recent article:

- Don't base your investment strategy on one event
- Don't wait for the 'all clear' before you invest
- Don't take on more risk than you have to
- Don't rush headlong into cash
- Don't abandon investing.

As macabre as it may seem, financial markets tend to go up rather than down during wars or military conflicts. That's because it's not conflict that pushes markets down, but uncertainty. The usual pattern is for markets to fall during the build-up to hostilities, and then rise once the uncertainty is over and the fighting has begun.

For example, after Saddam Hussein invaded Kuwait in August 1990, the NZSE40 Capital Index fell 18.1% over the fourth quarter of 1990. However, once the US-led Operation Desert Storm started and was finished in less than three months, the index rose 10.5% for the January-March quarter, and 8.0% for the next quarter.

Interestingly, over the following two quarters, when many investors finally decided it was 'safe' to get back into the markets, the index rose just 2.1% and 2.7% respectively.

Sharemarkets have sometimes been described as a mechanism for transferring wealth from impatient to patient investors. You could just as easily read 'nervous' for 'impatient' and 'bold' for 'patient'.

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