

## **What's an investor to do?**

While US and now European investors are despairing of their sharemarkets, Kiwi investors are mostly sitting tight.

The news from overseas hasn't been encouraging lately, i.e. the dodgy accounting practices and dubious management decisions firstly from Enron and then WorldCom. Now there are fears of the malaise spreading to other major US corporates, and that's been enough to see US and European markets tumble to new lows for the year.

In the past week, the Dow Jones has fallen to below September 11 levels, while on a single day, the British and key European sharemarkets fell more than 5 per cent. That scale of decline is normally enough to prompt investors to bail out of the sharemarket – pushing shareprices even lower.

Thankfully, New Zealand investors are keeping their cool and sitting tight. On the day of the 5 per cent losses overseas, our sharemarket fell only 0.35 per cent on turnover of less than \$50 million, compared with the usual daily average of \$70 million.

While US investors are having a crisis of confidence in their sharemarket right now, it's helpful to look back at sharemarket performance over the last decade. Interestingly, prior to the 'dot.com' crash in early 2000, investors had enjoyed five consecutive years of 20 per cent returns or more.

Looking back even further, history shows the sharemarket has constantly seesawed up and down – but over time, it has always risen. Despite the current significant issues, the sharemarket will recover – be it in two weeks, two months or even two years.

The main question on the minds of New Zealand investors is could Enron happen here? It's unlikely. In some ways, we're years ahead of the US. We had our own dodgy accounting and shoddy auditing scandals back in the 80s and early 90s (remember Fortex?). While there is always the chance of corporate fraud occurring at some level, our regulatory authorities and standard setters have worked hard to ensure the accounting practices our companies use pass muster.

So where does this leave investors? Hopefully, continuing to sit tight. Further bad news offshore may well see our market dip too, but serious long-term investors need to think very carefully before reacting.

Of course, if our market does fall, it could present some good buying opportunities for those investors prepared to do their homework. If you feel you should do something, your best course of action is to talk it over with a professional financial adviser.

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