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IT'S SAFE TO INVEST – JUST CHOOSE YOUR MANAGER WISELY

Every time that global stock markets are threatened by volatility, I receive calls from investors, anxious about the impact on their portfolios. Whether it's the effect of political change in North Africa on the oil price, fears about a commodity price bubble, or reports of China's over-heating housing market, there's no shortage of potential threats to the global recovery.

Having so recently been through the worst asset crash in living memory, investors are understandably nervous, and are paying far more attention to negative dynamics than they would have in the past. Much closer to home, the impact of the Christchurch tragedy, on both a human and economic level, cannot but make one question many of our personal as well as investment beliefs.

The darkest investment conversations I have with clients are with those who suggest that the whole capitalist system is flawed. Conspiracy theories abound in difficult times, and when one surveys the wreckage of so many investment firms in New Zealand in particular, it's not unreasonable to question the entire economic system.

One of the most important jobs of a financial adviser is to help clients keep a balanced perspective. It is understandable to feel overwhelmed by negativity when the noisiest players in our media environment thrive on fear and sensation. So, what about some of the balancing arguments?

To begin with, what we have all been through with the GFC has been traumatic – but it isn't the first time that global markets have crashed, nor probably will it be the last. Asset markets of all varieties tend to be cyclical, and while the downward trajectory of 2007 – 2009 was particularly awful to experience, we shouldn't lose sight of the fact that markets had risen fairly dramatically before the plunge.

What's more, the recovery that has occurred since then has conformed to an established pattern. A rapid bounce back from the lows of March 2009 has been followed by a period of consolidation, part and parcel of which is the kind of nervousness we are experiencing right now. Yes, there are causes for concern, but there are also reasons to be positive – like the unstoppable urbanisation of China and India, the rise of Brazil and Russia as economic drivers, and the continued technological breakthroughs transforming our world.

When I look at the equity portfolios of most of my clients, they are pretty much back to where they were before the crash, even though many global stock markets are trading around one third less than in 2007. We have been through the largest stock market correction of our lives, but two years later, many investors have bounced back.

Which is where we come to the most important part of investing. What we've seen in New Zealand with the collapse of so many finance firms is not so much the death of capitalism as the impact of poor governance. Whether it's the school board, regional council or private company, a badly managed organisation always fails its stakeholders. Investment companies which put all their proverbial eggs in one basket, which fail to disclose or even identify high levels of risk, which pay little attention to fiduciary practices, designed to put investors' interests first – these companies are highly vulnerable to even minor economic instability. In the context of the GFC, it is no surprise at all that so many have collapsed.

Which is why savvy investors always check up on the integrity of the investment house they use, the custodial arrangements of their money and the fiduciary certification of their advisers. It is these, not the overall investment climate, which really determine the ultimate failure or success of an investment. Economic cycles will always be with us, but your investment is too important to be left to chance.

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