Transcript

Why do investment markets go up and down?

Every day, we hear reports about market movements, but what is it that makes markets go up and down?

A major component of fluctuating markets is supply and demand, which affects what investors will pay for an investment.

Take the share market, for example.

Share markets are made up of thousands of individual companies.

When you buy shares in a company, you are buying part of that company. If the share price goes up, you can sell the share for more than you bought it and if the price goes down, you make a loss.

So why do shares fluctuate?

If a company is making profits and looks likely to have a good future, more investors want a piece of the action. They're prepared to pay more for its shares and this demand pushes the share price up.

If a company is losing money, or, there's bad news about its products or the people in charge, some shareholders may want to sell their shares. This is because they may believe the share price will fall and they'll lose their money. If there are more shareholders wanting to sell the shares, than new investors wanting to buy shares, the company's share price goes down. On the other hand, if the share price falls far enough, investors may see the low price as an opportunity to buy shares in the company. This may create more demand for the shares driving the share price higher.

It all comes back to supply and demand.

Local and international events are also constantly impacting markets because they can change how confident people feel about the future and investing.

For example, if Australian unemployment is rising, our share market may fall overall. This is because of expectations that people will have less to spend on the goods and services that companies produce, therefore, leaving companies with reduced profits.

On the other hand, a cut in Australia's official cash interest rate may cause our share market to move up. This is because investors may expect it to lead to more activity as people are likely to take advantage of cheaper loans to buy it and furnish homes, for example, and businesses may use the loans to buy equipment or expand their business. There are many influences on what investors are prepared to pay for an investment.

So, in the short term, markets will always go up and down. However, very few of these factors end up having a significant impact several years down the track. That's why the highs and lows tend to offset and generally even out.

So, while fluctuations in the value of your investments can be unsettling, it's important to take a long-term view so that you're more likely to get a return that benefits you in the long run. A financial adviser can assist you throughout your investment journey.

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