



Market volatility and fund performance

June 2008

What about me? I'm about to retire.

Recent volatility, both here and overseas, may have caused many investors getting ready for retirement to question their strategy.

And while it's never a bad idea to review your investment strategy from time to time, reacting to short-term market fluctuations can seriously risk your savings.

Our analysis shows that a well diversified portfolio is often the best strategy for long-term growth. But if you are feeling concerned, there are some tried and true insights which might help put you at ease.

1. What goes up must come down

Over the past 10 years, we have experienced one of the greatest periods of growth in the Australian sharemarket history.

History also tells us that markets are in a constant state of rising and falling, but over the long-term they have never failed to surpass previous levels.

Holding a diversified portfolio of investments is one way of managing market volatility over the long term and growing your wealth at any life stage.

2. Chasing may leave you further behind

In uncertain times, many investors change their investment strategy in an attempt to protect from further loss. However, this may mean they miss out on any subsequent gains.

Each year the DALBAR study calculates how much money is lost by the average investor who typically chops and changes their investment strategy. In the 2007 study, they compared a hypothetical \$10,000 investment made by the average investor against the returns generated by the average fund.

And the winner?

The average investor was 40% worse off than the average fund at the end of the 20-year period. With a \$10,000 investment, this worked out to over \$9,000 in added value. Imagine how much this could equate to with a larger investment, over a greater period of time!

A diversified investment approach, which encompasses a mix of high and low risk assets, can help manage short-term market fluctuations and provide potential capital gains in the long run.



3. Don't lose sight of your long-term goals

With the results of shares reported daily it can be easy to forget the fact that they are designed to be a long-term investment.

If you cast your mind back to when you set your financial goals with your adviser, you'll remember that it was always a long-term strategy.

Remember – even if you invested \$10,000 into the Australian stock market the day before the October 1987 crash, your investment would now be worth over \$70,000*.

And if retirement for you is on the sooner side, it's well worth speaking with your adviser to make sure your investment strategy is set up to help manage the effects of volatility.

* Assumes dividends are reinvested S&P/ASX300 Accumulated index (all ordinaries prior to April 2000).

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