

# Seeing through market volatility



**It's natural to be concerned about sharemarket volatility.**

**After all, it isn't easy to watch your hard-earned investments depreciate, potentially jeopardising future retirement savings.**

Many investors understandably look to cash as a welcome safe haven in times of market turbulence. But as inflation and the cost of living increase, your investments will struggle to keep pace, potentially leaving you short of the funds necessary to maintain a comfortable standard of living in retirement.

It's worth stepping back and taking a longer-term perspective. If you move your investments into typically low-risk, lower-return asset classes, you run the risk of missing out on the potentially higher long-term returns from other asset classes such as shares or property.

While daily market fluctuations can be alarming, shares have weathered every storm since records began to deliver long-term gains.

## **The ripple effect**

Share prices not only fluctuate over a period of months or years – the sharemarket can be gripped by daily convulsions as investors react to market developments in an age of instant global communication.

We live in an increasingly interconnected world where events are immediately reported around the world.

Investors are able to receive, process and act upon business and economic information within seconds – from foreign currency movements to the price of oil and interest rate decisions in key economies.

As a consequence, markets are increasingly reactive and bad news can create a ripple effect.

If a bank releases disappointing financial results, shareholders tend to react by punishing its counterparts in the same sector. If share prices fall in one jurisdiction, there is generally a knock-on effect in other markets.

The sheer pace of global communications makes daily trading of short-term investments a high-risk strategy. For most investors it pays to take a longer-term view of investing.

## **What goes down must come up**

Sharemarket volatility is generally more pronounced and more frequent during periods of economic uncertainty.

For example, on 25 July 2008, a sub prime-related profit warning from a major bank prompted the Standard & Poor's/ASX 200 index to shed more than 3 per cent, wiping \$38.5 billion off share values.

But the negative sentiment was short-lived. Less than a fortnight later the index soared more than 3 per cent in a single day's trading after an indication from the Reserve Bank of Australia that it was considering a cut in interest rates.

Market volatility makes trying to chase daily returns a high-risk proposition. A more sustainable philosophy is keeping a long-term investment perspective in mind to help you see past the volatility to the ultimate rewards.

## **The recovery of financial markets**

The gloom predicted by newspaper headlines tends to emphasise bad news and investors could be forgiven for thinking markets won't ever get back to normal during periods of instability. But history tells us the market eventually recovers from downturns. The average rebound in the 12 months following a bear market (the description of a sharemarket that falls in value for a prolonged period of time) low over the past five decades is 32 per cent, as shown in the following table.

## Bear markets in Australian shares since 1960

Share bear market in Aust Shares	Months to low	% fall	Months after low to make new high	% gain in first 12 months after low
Sep 60 – Nov 60	2	-23.2	33	+12
Feb 64 – Jun 65	16	-20.4	25	+9
Jan 70 – Nov 71	22	-39	94	+52
Jan 73 – Sep 74	20	-59.3	59	+51
Nov 80 – July 82	32	-40.6	17	+39
Sep 87 – Nov 87	2	-50.1	75	+35
Aug 89 – Jan 91	15	-32.4	30	+39
Feb 94 – Feb 95	12	-21.7	20	+25
Mar 02 – Mar 03	12	-22.3	15	+21
<b>Average</b>	<b>15</b>	<b>-34</b>	<b>41</b>	<b>+32</b>

Source: Bloomberg

Past performance is not necessarily indicative of future performance

## Taking a long-term perspective

Investing remains a long-term discipline. The volatility of returns decreases significantly the longer you remain invested. Short term volatility does cause us concern but keeping our focus on the longer term is the important perspective.

Asset class	Average compound annualised returns over five years to 31 March 2009 % per annum	One-year return to 31 March 2009
Cash	6.0	5.7
Australian fixed interest	6.4	12.8
International fixed interest	7.5	10.0
Listed property	-9.9	-57.6
Australian shares	5.5	-29.5
International shares	-1.3	-24.0
<b>Diversified funds</b>		
Defensive <sup>1</sup>	4.8	-6.1
Moderately defensive	3.7	-13.9
Balanced	2.9	-20.8
Growth	2.2	-25.8
High growth	1.6	-27.9

<sup>1</sup> Defensive defined as 30% of investment held in growth asset classes such as shares and property with 70% of investments held in defensive asset classes such as cash and fixed interest. Balanced defined as 70% growth assets and 30% defensive assets. High growth defined as 99% growth assets and 1% defensive assets.

All figures are before any fees and taxes.

Indices used include UBS Bank Bill Index, UBS Australian Composite Bond Index, ASX 200 Accumulation Index, ASX200 Property Trust Accumulation Index, MSCI World Accumulation Index (\$A), and Lehman Brothers Global Aggregate Index.

Source: Datastream

It's easy to be swayed by rapidly fluctuating markets and the media 'noise' surrounding these market movements. However, it pays to adopt a more patient, long-term strategy, and, with the help of a financial adviser diversify your investments across asset classes and focus on the longer term.

### Important information

This publication has been prepared to provide you with general information only. It is not intended to take the place of professional financial and taxation advice and you should not take action on specific issues in reliance on this information. In preparing this information we did not take into account the investment objectives, financial situation or particular needs of any particular person. You should obtain a copy of the relevant Product Disclosure Statement (PDS) before making a decision to invest in any financial product. Copies of our PDSs can be obtained from your adviser or on our website [www.axa.com.au](http://www.axa.com.au).

Applications for investment in AXA Australia products will only be accepted on receipt of an application form accompanying a current PDS. National Mutual Funds Management Limited (AFSL 234652) and its associates derive income from issuing interests in the products, full details of which are contained in the PDS. Past performance is not necessarily indicative of future performance. Whilst we believe the information contained herein is correct, no warranty of accuracy, reliability or completeness is given and, except for liability under statute which cannot be excluded, no liability for errors or omissions is accepted. This information is provided for persons in Australia only and is not provided for the use of any person who is in any other country.

**axa.com.au**

National Mutual Funds Management Limited  
ABN 32 006 787 720 AFS Licence No. 234652  
Member of the Global AXA Group



**redefining / investments**