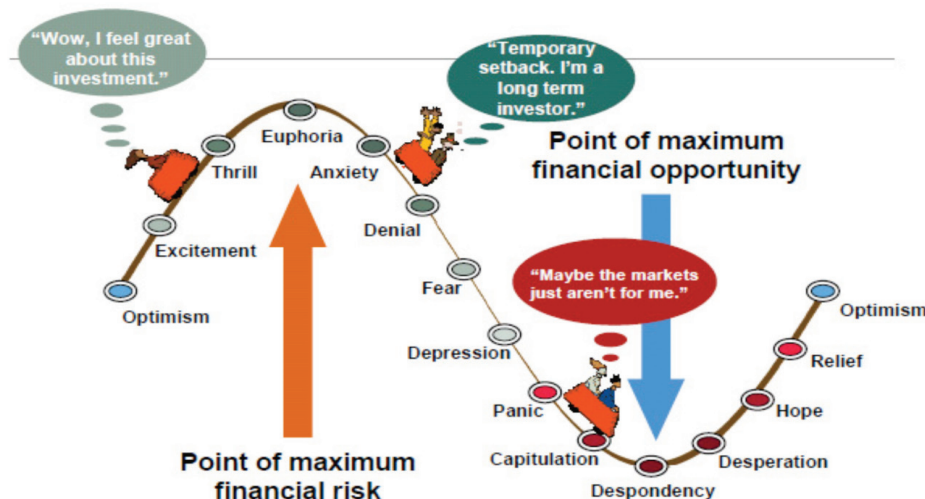


### Market Volatility

Market fluctuations have a tendency to cause worry resulting in normally rational investors making irrational decisions driven by emotion. It is important to keep events in perspective and not overreact to short-term moves driven by extremes of sentiment. At times you may feel like you are riding an emotional rollercoaster as shown below.

#### The emotional rollercoaster



Source: Russell Investment Group

### What are the consequences of this emotional ride?

Sometimes emotions can turn rational investors into irrational investors. Panic switching based on daily market movements is likely to lose you money. Remember that your financial goals for retirement depend on your chosen diversified long-term investment strategy.

This is where the role of your financial adviser is of utmost importance - your adviser can help you separate your emotions from reality and endeavour to steer you on the path of rational investing. You can also help to avoid the emotional roller coaster by being aware of the emotions you are likely to experience.

### What does this mean for your superannuation?

Historically, share markets are cyclical by nature. They always rise after major falls and always fall after periods

of growth. However, the human psyche often struggles to see the bigger picture, focusing instead on the here and now. Looking at investment markets over a 30 year period offers insight into 3 key investing principles - namely the value of diversification, understanding risk and taking a long-term view. These key principles have stood the test of time - and numerous market tests - including the global financial crisis.

#### 1. Take a long-term approach

Allowing emotions to drive investment decisions - be it overconfidence in rising markets or fear in falling markets - rarely serves investors well. Successful investors ignore the short-term emotions of markets and take a long-term approach to investing. History shows that long-term investors have been rewarded for being patient and disciplined around rebalancing portfolios back to target asset allocation settings.

## 2. Understanding Market Risk

Over the past 30 years positive returns have outweighed negative returns across all major asset classes. For example, since 1981 Australian Shares have delivered positive returns in 24 out of 30 financial years, returning an average annual return of 11.0% to June 2011. Some investors find the notion of trying to time markets alluring. However, getting the timing right is extremely difficult which can often mean missing out on the strong return periods as we saw from March 2009 to November 2009, where the S&P/ASX All Ordinaries Accumulation Index provided a return of 47.9%.

## 3. Maintain portfolio diversification

Investing across asset classes provides exposure to market growth opportunities while reducing portfolio risk. Having a portfolio which holds a range of asset classes ensures that you are well positioned to capture market growth over the market cycle while helping to moderate return volatility over time. Ultimately no one can predict the future, which is why investing based on short-term performance can be a dangerous strategy compared to taking a diversified long-term approach.

## Causes of the recent volatility

### Markets have fallen for three main reasons;

1. Concern about the level of sovereign debt in Europe (particularly Spain & Italy)
2. Concerns about the possibility of another recession in the US as some economic indicators weaken.
3. Downgrading of US's sovereign debt rating by ratings agency Standard & Poors from the highest

AAA rating by one notch to AA+ (Moody's and Fitch 2 other ratings agencies have affirmed a AAA rating).

## Impact on Australian Share market

The performance of Australian shares is still heavily influenced by sentiment on US and global markets. In the short term, markets will be knocked about by large swings in sentiment but in the longer term tend to settle around fair value. In the Australian market's favour, compared to others, is the heavy exposure to the solidly growing Chinese economy through the resources sector and expectation of continued solid GDP growth. Australian policy makers also have a much greater capacity to respond to shocks to global growth than other more indebted countries by reducing interest rates and increasing government spending.

## Obtain advice

Quality financial advice is essential to ensuring your financial affairs are on track to meet your personal objectives and needs. AXIS has been providing financial advice on super for over 15 years and we're proud to be a leader in our industry.

Every member joining AXIS needs to be assessed for their risk profile prior to investing their super. This ensures your objectives are matched appropriately with your strategy. So if you're concerned about share market performance and how it's impacted your super, please call us.

You can speak with one of our Team members on Freecall 1800 111 299. Alternatively, you can email us at: [super@axisfg.com.au](mailto:super@axisfg.com.au)

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