

Pay Dirt – Reaping the Rewards of Recession

When it comes to share markets, you can be sure of three things – they will rise, they will fall and human emotion will always be a driver of market direction. The psychology of the mind and its influence on investment decisions can be difficult to ignore. Worse still, it can often lose you money, due to panic selling. This Informer reinforces the futility of trying to second-guess the market and why good things come to those who wait.

Famous last words

Winston Churchill once said, “The farther backward you can look, the farther forward you are likely to see. It is always wise to look ahead, but difficult to look further than you can see.”

In terms of share market performance and investor behaviour, no truer words were spoken.

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. The 2008 downturn is a perfect case in point.

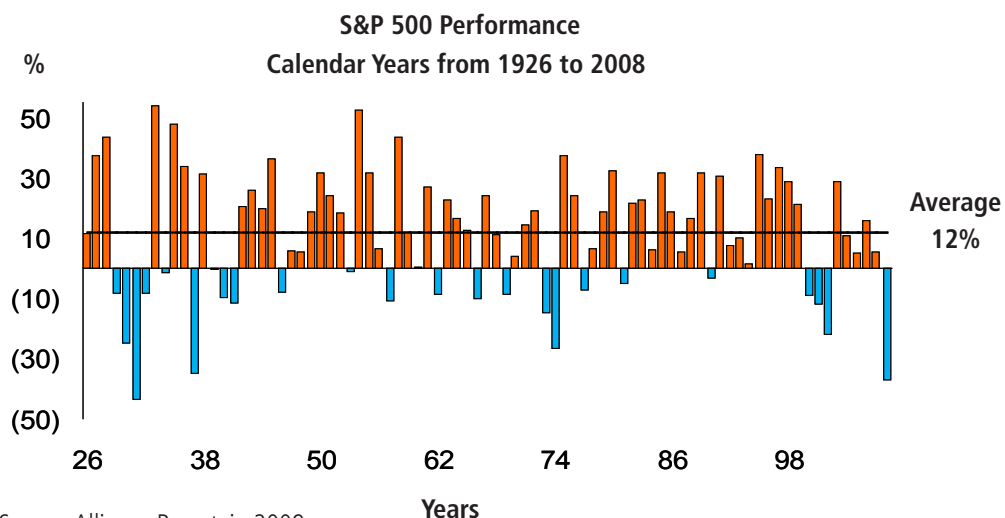
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The market declines last year came hard and fast, causing major concern among pre-retirees, worried about their ability to recoup losses. Twelve months on and the market has rebounded – just as hard and just as fast. Losses have been partly recovered and account balances are on the up again.

In short, while those in retirement have good reason to complain, for the majority of investors, last year’s downturn will actually work in their favour – provided they remember three simple rules of investing.

1. Super is a long term investment

The fact that super is a long term (ie a period of 10 years or more) investment almost predisposes you to focus on long term performance. This is perfectly illustrated in the following graph. While short term performance has been highly volatile, over the past 80 years, there have been more rises than falls and the overall average return is positive.



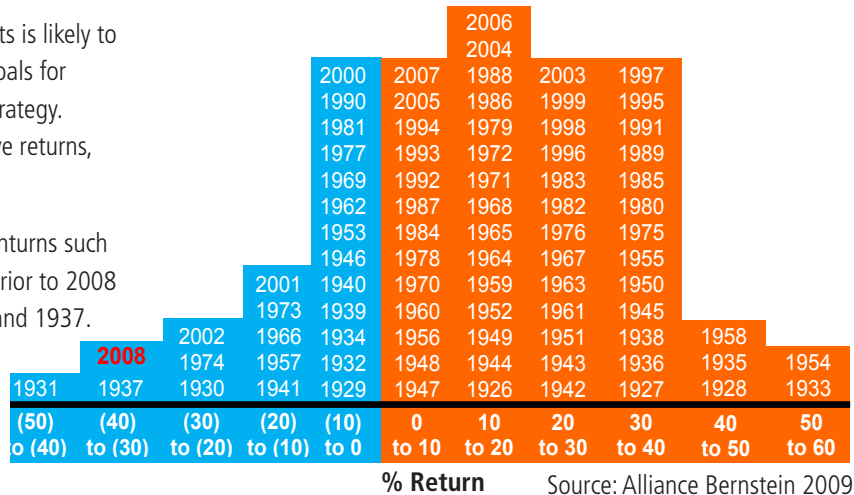
2. Stick to your investment strategy

Panic switching based on daily market movements is likely to lose you money. Remember that your financial goals for retirement depend on your chosen investment strategy. Knee-jerk reactions can eliminate years of positive returns, which defeats your objective.

In any event, as the following graph shows, downturns such as those in 2008, are quite rare. The only times prior to 2008 where annual returns were as low as in 1931 and 1937.

No. of Positive Years: 59 (71%)

No. of Negative Years: 24 (29%)



% Return Source: Alliance Bernstein 2009

Furthermore, losses have usually been made up quickly.

Down Markets	Length (Months)	S&P 500 Return % pa	First Year % Return After Decline
Aug 1957 – Dec 1957	5	-15.0	43.4
Jan 1960 – Oct 1960	10	-8.4	32.6
Jan 1962 – Jun 1962	6	-22.3	31.2
Feb 1966 – Sep 1966	8	-15.6	30.6
Dec 1968 – Jun 1970	19	-29.1	41.8
Jan 1973 – Sep 1974	21	-42.7	38.2
Jan 1977 – Feb 1978	14	-14.2	16.5
Dec 1980 – Jul 1982	20	-17.2	59.5
Sep 1987 – Nov 1987	3	-29.6	23.4
Jun 1990 – Oct 1990	5	-14.7	33.5
Sep 2000 – Mar 2003	31	-42.0	35.1
Average	13	-24.2%	35.3%

Source: Alliance Bernstein 2009

3. Obtain advice

Quality financial advice is essential to ensuring your financial affairs are on track to meet your personal objectives and needs.

AXIS provides independent, quality advice about your super, at no extra cost. Our extensive research covers share market trends, performance and thousands of super funds. We've been providing financial advice on super for nearly 15 years and we're proud to be a leader in our industry. Every member joining AXIS is 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 our friendly Advisory Group or Technical Services team on **(08) 9426 5800** or **1800 111 299**.

Alternatively, you can email us at: advice@axisfg.com.au

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Feel free to contact your adviser with any questions about this bulletin



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