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The investment crisis continues...so what now for super?

Prepared by Certainty Financial - advisers to your employer superannuation plan

From an investor's perspective the 2008 year has simply gone from bad to worse. September left a trail of destruction in its path and the first two weeks of October hasn't delivered any immediate comfort, despite the efforts of governments and central banks around the world.

The media and press coverage on the credit crunch and falling global share markets has reached unprecedented levels. That's quite understandable. Many investment commentators believe we are witnessing a once in a lifetime event that will change the face of global financial markets in many ways (especially through stronger government controls).

So where does this leave the superannuation investor?

In previous updates, Certainty has commented on the volatility in the markets, drawing attention to appropriate courses of action superannuation members could take. Older members have been encouraged to seek personal advice, while the message for the majority of superannuation members has been to 'stay calm', 'put market falls into perspective', and 'stick to your original investment plan'. *But is taking a long-term view really the secret to riding out market 'wobbles'? Or is it just a well-worn cliché?*

Sticking to the Fundamentals

Even though global share markets are experiencing a more severe downturn than expected, the basic investment fundamentals still apply. History tells us that the markets will recover. What we can't predict is when, where, and to what assets.

Which brings us to another basic investment fundamental - the importance of maintaining a well diversified portfolio of assets and investment managers. The vast majority of superannuation members have their super invested in diversified portfolios (typically labeled **growth**, **balanced**, and **stable** portfolios) and chances are they are also **multi-manager** portfolios (which means your money is invested by a number of different fund managers chosen by the trustee on your behalf). These portfolios are still exposed to negative returns, but not to the same extent as portfolios dedicated to a single asset class, such as shares.

For example, according to the Chant West Quarterly Multi-Manager Survey (for the year ending 30 June 2008), the S&P/ASX 300 Accumulation Index fell -13.7%. By comparison the median return for a multi-manager growth fund fell -6.9%. If you would like to review your asset mix then seek further information and advice before making any changes.

Your employer super fund explains investment risks in the Product Disclosure Statement ("PDS") issued to you when you joined the plan. If you would like to secure another copy then contact your super fund or Certainty Financial.

Your superannuation in "trust"

Financial institutions around the world are under extreme pressure. While the Australian Government continues to reassure Australians of the strength of our banking system, it is worth drawing attention to an important dynamic that applies to superannuation.

As an investment, superannuation operates within a framework of strict legal and governmental prudential controls. The assets of a superannuation fund are owned by the "Trustee" who holds the assets in trust for the fund's members. This means the financial institution that administers and invests your super cannot use your money for its day-to-day operations. If the financial institution suffers operational losses, or a collapse of its share price, then it cannot access any of the assets invested in the superannuation funds it promotes. Furthermore, any operational troubles it experiences has no bearing on the investment performance of its fund managers (nor the external fund managers in its super fund offering).

A final note...

Warren Buffet, considered one of the world's most astute investors, once observed, "be fearful when others are greedy and greedy only when others are fearful". This probably explains why, in recent weeks, he made significant purchases in Goldman Sachs and General Electric. There will be an end to this mayhem and time will, as always, act as the ultimate smoothing device.

Time to act?

For some readers, now would represent the right time to invest in personal advice, especially if you have a five to ten year horizon before heading into retirement.

The cost of personal superannuation advice can usually be deducted from your superannuation account balance - a popular and convenient means of obtaining professional advice and hopefully, some peace of mind. Contact your financial adviser or Certainty Financial if you would like to discuss your circumstances and seek some guidance on your retirement and investment plans.

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