

**CERTAINTY**  
financial

super  
update

## Market Volatility - a history lesson

Prepared by Certainty Financial - advisers to your employer superannuation plan

In the investment industry, we often say that past performance is not a reliable indicator of future performance, but looking at past results in the broader context of history can be valuable for all of us as investors.

The first and most important lesson that we learn from history is that the market volatility we have experienced in recent months is nothing new. Each period of volatility has had its own set of circumstances that has led to a sell off and each of these circumstances has had some form of "doomsday" predictions that never eventuate. Right now, the US sub-prime market, the uncertainty surrounding the depth of the US recession, rising oil prices and inflationary fears are all contributing to the current conditions.

But history tells us that investor sentiment can change suddenly in both directions. Confidence in the markets can, and often does, return swiftly and in an extremely positive manner.

By way of example, the table below shows the recovery in the share market immediately following periods where a 20% decline in markets has occurred. The return of investor confidence can be quite impressive.

| Share market fall | % decline top to bottom | % return over 12 mths from low |
|-------------------|-------------------------|--------------------------------|
| Feb 80 – Mar 80   | -20                     | +39                            |
| Nov 80 – July 82  | -42                     | +39                            |
| Sept 87 – Nov 87  | -50                     | +35                            |
| Aug 89 – Jan 91   | -32                     | +39                            |
| Feb 94 – Feb 95   | -23                     | +25                            |
| Sept 97 – Oct 97  | -21                     | +18                            |
| Mar 02 – Mar 03   | -22                     | +27                            |
| Nov 07 - ?        | -24 ?                   | ?                              |

Source: Bloomberg, AMP Capital Investors.

Of importance is the fact that the recovery rates shown are over a 12 month period, but the table does not indicate how much of this recovery occurred in the immediate period following the bottoming out of the market. In other words, if you were an investor that was waiting for evidence of the recovery before investing again, then chances are that much of the recovery has already taken effect by the time you have your confidence restored.

We have said this before, but "time in the market is more important than timing the market." We can't predict the future but we can pay attention to the past.

*It's times like these that it is helpful to know that there has always been times like these.*

### How has the downturn impacted your super fund?

The end of March 2008 represented the fifth month in succession where negative returns were posted in the typical superannuation balanced or growth portfolio. No super fund is immune to the market conditions and all will have suffered negative returns to one degree or another. At this rate, it is highly likely that your 30 June 2008 statements may register a negative return for the year if you are investing in a growth or balanced style of portfolio.

It might be one thing to accept that all super funds are subject to the downturn, but it is perfectly reasonable to ask whether your super fund is being affected more or less when compared to other super funds.

In most instances it is too early to measure, as the market volatility can distort results in the short term. Some funds that may appear to be hit hard by the downturn may be better positioned to take advantage of the market recovery when it occurs.

We caution our clients when reading investment performance results in the daily press, as often the funds being measured are not truly comparable (ie. not an apples to apples comparison).

What is worth remembering is the range of investment choice you have within your employer super fund. If you are not happy with your medium to long term investment results and you are wanting to change, then there may well be preferred solutions within your existing super fund without having to go through the process of change. Once again, if this is important to you then you might want to seek some advice before making any investment decisions.

### How Certainty can help

The benefits of having a financial plan that documents your investment objectives and financial strategies cannot be overstated. If you have concerns, or would like further help, seek advice from your Certainty financial adviser.

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