

Investment basics

education series

Coping with market ups and downs

If the ups and downs of the market have you rethinking your investment choice for your super, the important thing is not to over-react. Here are four strategies to help you weather the storms of the markets.

1. Keep emotion out of your strategy

Investing should be a rational decision-making process, but commonly, we tend to let emotions such as fear and greed into our decisions. Unfortunately, when emotions become the driving force, we can make inappropriate investment choices.

During turbulent times, it is essential to separate emotion from strategy. When markets are rising and falling, don't be influenced by short-term performance. Remember, if you are investing for a long-term purpose such as retirement income, time is probably on your side. So, unless your goals or investment timeframe change, it's a good idea to create a strategy and stick with it.

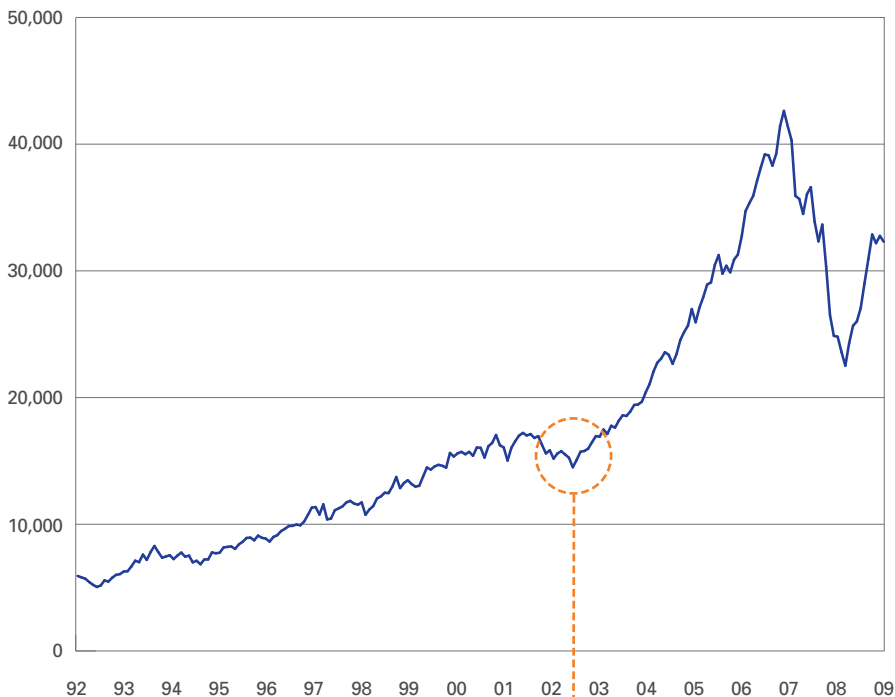
2. It's time in the market that counts

It's not easy to stay optimistic about your super investment when your statement shows it has lost value. In fact, it may be tempting to reallocate your super into more stable options. If you find yourself tempted to switch options, consider this: your chance of earning a positive return on investments increases the longer you hold them.

Each AustralianSuper investment option has a minimum number of years that you should be prepared to invest in it, before it will meet its investment objectives. To find out more about our options, have a look at our *Investment Choice Guide* – available at www.australiansuper.com/InvestmentGuide or call 1300 300 273.

Short-term peaks and troughs are just blips in the bigger picture

The Australian share market (S&P ASX300 Index) – May 1992 to Nov 2009



Short-term volatility in the Australian stock market from 21 May 2001 to 21 May 2002

Following 11 September 2001, the share market ASX 300 Index fell 9.5% in just fourteen days. But by December the same year, the share market had recovered the losses.



3. Keep a long-term perspective

While shares and other asset classes can rise and fall in value in the short-term, over long periods of time, the picture is very different. The graph on the left shows how the Australian share market has risen in value over the past 19 years. But during that time there have been short periods where the value of shares has fallen, as shown by the magnified section of the graph.

And consider the returns of the Balanced option. While a one-year return may look bad, such as the -19.4% to 31 December 2008, the best return was 18.0% to 31 December 1987, with an average annual return since the option began of 9.9% pa (to 31 December 2009).

So, keep a focus on the long-term, because investment results over a short period can distract from investment performance over many years.

4. Diversify your investment

Nobody can predict when a market downturn will end or what asset class will be the next big performer.

To illustrate how difficult it can be to predict how markets will behave, take the following table of asset classes over the past 20 years. The top performers are highlighted, and as you can see, there is no pattern to indicate which asset class is going to be the top performer in any given year.

The best defence against a poorly performing market is a well-diversified portfolio, with investments in different types of assets.

AustralianSuper's Balanced option is the default investment option for members who do not make an investment choice. It has a diversified asset allocation which includes international and Australian shares, property, infrastructure, private equity, fixed income and cash.

Annual returns for the major asset classes

The best performing asset class in each year is highlighted in yellow

Year to 30 June	Australian shares	International shares	Direct property	Australian bonds	International bonds	Cash
1990	4.1%	2.8%	13.2%	16.1%	13.1%	18.5%
1991	5.9%	-0.9%	-9.9%	22.3%	15.3%	13.5%
1992	13.3%	8.4%	-9.0%	22.1%	15.7%	9.0%
1993	9.9%	32.7%	-7.3%	14.0%	14.7%	5.9%
1994	18.5%	1.2%	8.5%	-1.1%	2.2%	4.9%
1995	5.7%	13.9%	9.9%	11.9%	13.1%	7.1%
1996	15.8%	6.5%	6.6%	9.5%	11.2%	7.8%
1997	26.6%	28.6%	6.3%	16.8%	12.1%	6.8%
1998	1.6%	38.0%	10.2%	10.9%	11.0%	5.1%
1999	15.3%	9.1%	9.4%	3.3%	5.5%	5.0%
2000	15.1%	24.0%	10.9%	6.2%	5.0%	5.6%
2001	9.1%	-6.3%	10.4%	7.4%	9.0%	6.1%
2002	-4.5%	-22.9%	9.9%	6.2%	8.0%	4.7%
2003	-1.6%	-18.2%	11.1%	9.8%	12.2%	5.0%
2004	21.7%	19.7%	11.9%	2.3%	3.5%	5.3%
2005	26.0%	1.1%	13.4%	7.8%	12.3%	5.6%
2006	24.0%	21.0%	17.2%	3.4%	1.2%	5.8%
2007	29.2%	9.3%	19.1%	4.0%	5.2%	6.4%
2008	-13.7%	-20.0%	14.6%	4.4%	8.7%	7.3%
2009	-20.3%	-16.1%	-12.4%	10.7%	11.4%	5.5%

The information in the table has been prepared using data from the following market indices: Australian shares – S&P ASX 300 (All Ordinaries before 1/4/2000); International shares (all countries (unhedged)) – MSCI All Countries World ex Australia NET WHT (unhedged); Direct property – Mercer Unlisted Property; Australian bonds – UBSA Composite Bond All Maturities; International bonds (hedged) – Citigroup WGBI HDG AUD; Cash – UBSA 90 Day Bank Bill.



For more information on diversification, have a look at our factsheet *What is diversification?*

at www.australiansuper.com/DiversificationBasics or our *Investment Choice Guide* at www.australiansuper.com/InvestmentGuide

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and ask to speak to a qualified financial adviser – they can provide over-the-phone financial advice at no cost.*

Or visit our website at:



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