

Points to remember when investing in uncertain times

No matter when you're investing, there are some fundamental investment principles you should remember.

Following these principles can help you keep focused on your goals and give you confidence to take advantage of opportunities to add to your wealth over time.

Short-term volatility is nothing new

Most of us like to stay up-to-date with how the markets are going. However, when markets are volatile they hit the headlines, and there always seems to be more stories compared to when markets are performing well. Fear sells newspapers!

While it's good to be knowledgeable about what's going on, when thinking about your investments, it helps to remember that market down times are a normal part of the market cycle.

And, while it's natural to feel unsettled during uncertain times, we've seen it all before. History is littered with examples of market corrections (falls of more than 10%) and in every case, the market has bounced back and continued on an upward trend.

Stay on target and don't bail out

When sharemarkets go down it pays to remain calm and not make any hasty decisions. After all, markets move in cycles and you're invested so you can achieve your long-term goals.

However, when there is uncertainty, it can be hard to resist the temptation to bail out of the market. But in doing so you're effectively accepting losses and preventing yourself the opportunity to benefit from the market recovery.

In fact, as you can see on the table below, after these major corrections, its not usually that long before the sharemarket has not only recovered, but gone on to higher returns. Now you wouldn't want to miss out on that!

Sharemarket bounce backs

Date of fall off high	% fall in 10 day period	6 mths later
3/03/2009	-15.2%	+58%
31/08/1998	-13.1%	+28%
27/10/1997	-9.8%	+24%
20/11/1974	-9.7%	+31%

Source: Goldman Sachs & Partners Australia Pty Ltd, Goldman Sachs Afternoon Report, 9 August 2011

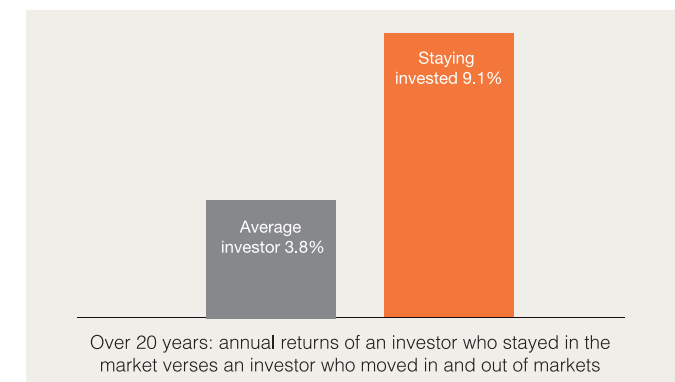
Time in the market is the way to build wealth

We've all heard the term 'buy low, sell high' but in reality, no investor is able to do this consistently. Trying to predict, with any certainty, what markets will do over short periods is impossible. And, trying to do so can actually be detrimental to building wealth.

Each year, the DALBAR study in the US calculates how much money the average investor loses when they change their investment strategy to chase the latest trend or like many are now, escape negative returns.

Over a 20-year period, an investor in equity funds would only achieve an annual return of 3.8% doing this compared to the average market return of 9.1%!

DALBAR study



Source: DALBAR, Inc. 2011 QAIB

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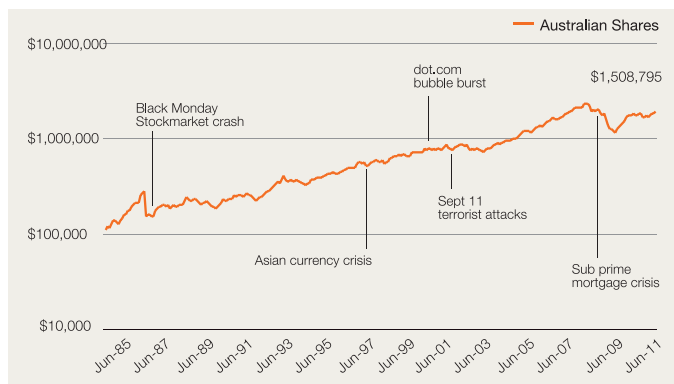
The market trend is up

If you focus too much on short-term market movements, you may actually lose sight of the bigger, long-term picture and the reason why you invested in the sharemarket in the first place. Historically, it has always trended up.

There's always world events and economic circumstances which are going to influence market values of companies, but the big picture is a good one. Each time it falls, it's just a matter of time before the market returns to its previous high and continues on its upward trajectory.

But as the time taken to recover varies with each event, you may need to be patient. That's why you need to consider investing in the sharemarket a long-term strategy.

Australian sharemarket trend since Jul 1985



Source: MLC, Growth of \$100,000 Investment Jul 1985 – Jul 2011 (Income and dividends reinvested)

Diversify, diversify, diversify

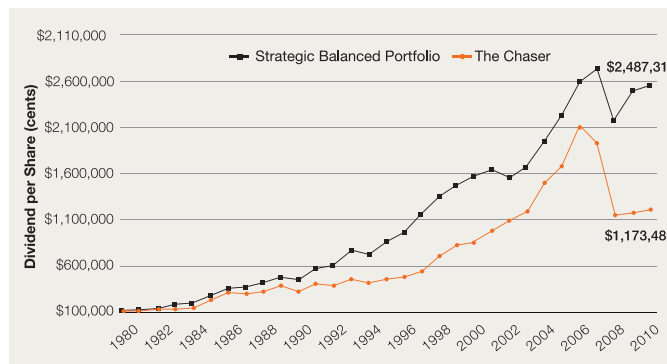
The golden rule of managing investment risk is diversification. By having your portfolio of investments diversified, you're effectively spreading your risk and giving yourself the opportunity to benefit from a range of investments which may be performing differently in different market environments.

You can diversify your portfolio at many levels. Diversifying across asset classes can give you the greatest benefit when sharemarkets are volatile.

Diversifying means you don't have to try and guess what the best performing asset class is going to be because, as the chart below shows, if you invest in the best performing asset class from the last year, you may be on a wild goose chase!

In fact if you'd just stayed invested in all the asset classes you would have been much better off in the long run.

Chasing returns



Source: Calculations by MLC based on market index data

Risk and return are related

You'll no doubt understand the direct correlation between risk and return already. The higher the expected investment return, the higher the level of risk you'll need to accept.

Having a realistic expectation of the kind of returns you can achieve for the level of risk you are comfortable with, includes allowing for ups and downs during the market cycle and their affect on your portfolio. Then during volatile times you'll be better prepared to make more informed decisions.

Most importantly, seek advice

In the same way you make other important decisions in life, it often pays to speak to a qualified professional. Of course, building your wealth and saving for your future is very important.

And, everyone's needs and goals are different, so you'll need an investment strategy that's designed specifically for you. Your financial plan, among many other things, takes into account the levels of risk you're willing to accept and your investing timeframe.

And, while your strategy is designed to accommodate for uncertainty in the market, because it'll inevitably happen at some time in your investing life, it never hurts to review your strategy and make sure you're still on track to achieving your goals.

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