

Tips on riding the financial market tides

Many correlations exist between the natural movements of the financial markets and the waves of the ocean. When each builds momentum, they can rise to a peak followed by an eventual fall. Both can be unpredictable – fluctuating between turbulence and calm.

Given the recent negative performance of the domestic and international finance markets, we have enclosed some key tips on ways to deal with the current situation.

Tip 1

Roll with it – and maintain a long-term perspective

It can be a natural response when a situation doesn't go to plan, to seek to fix it immediately. Nevertheless, in some cases it may be better to 'weather the storm'. Let's look at a tropical holiday as an example. You have planned the trip, paid for accommodation and airfares and taken the necessary time off work. However, you arrive only to find it rains for the first three days! You're told that the weather is cyclical and the storms will pass but all you can see are the clouds. Do you pack up and leave, or stick it out and wait for the weather to change?

The same analogy can be applied to the current financial market situation. Up until the end of 2007, global and domestic markets had experienced a bull run for the prior five years where markets were strong and returns were generally positive.

Today, the storm clouds have arrived and investors are experiencing low or negative returns. Looking at the current situation in isolation may evoke an alarmist response. Investors may adopt a knee jerk reaction and switch investments to options such as cash, which may be perceived as 'safer'.

However, before such an approach is taken, it's vital to consider the natural movements of the markets and importantly,

take a long-term perspective. Sticking with your current investment strategy may be prudent.

The graph below depicts the movements of the Australian Share Accumulation Index (an index that measures movement in the value of the Australian share market) that have taken place over the last 109 years. Within this time, 'global conflicts, at least one major depression, bear markets, economic recessions, an oil crisis, periods of inflation, and share market crashes'¹ have all occurred. In spite of all this, over the long-term, the share market continues to increase in value. These movements show that 'the share market will almost certainly overcome the most recent pullback and the events surrounding it [will] continue on to new highs'.¹

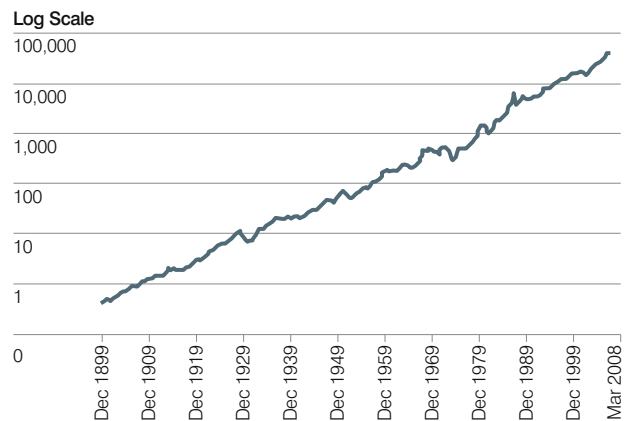
Indeed, Anthony Waldron, General Manager of MLC Platforms, recently stated that individuals who remain invested in the market will benefit when the market steers towards its 'eventual upturn, and those who are invested elsewhere will miss out.'³

In fact, investors, 'switching to Authorised Deposit Taking Institutions (ADI) cash products – those covered by the Government Guarantee – could essentially crystallise their equity losses and miss out on a rebound in the markets.'⁴

When it comes to your investments, as is the case with a tropical storm, it's important to consider the cyclical nature of the markets, adopt a long-term perspective and avoid knee jerk reactions.

Imagine cutting short a tropical holiday because of bad weather, only to hear upon returning home that your holiday destination was now experiencing the delights of sunshine.

Australian Share Accumulation Index²



Many investors are currently asking whether they should 'remain invested in the share market?'

It's time in the market – not timing the market – that matters. Market timing is often difficult and offers no certainties. By staying in the market and not trying to time its peaks and troughs, investments usually grow over the long-term.

The big question... should you be contributing into your super at this time?

Of course we can't provide financial advice, however there are a couple of things you may want to consider.

1. The price of shares is now reaching all-time lows. This means more can be bought for a lower price per unit than they were trading at a year ago.
2. We can't say it enough – historically over the long-term, the share market has increased in value.



Speak to your financial adviser regarding the above points or call a Member Services Consultant on **1300 55 7586** for more information.

¹ Australian Securities Exchange. Long term Australian share market returns. May 2008, <http://www.asx.com.au/resources/newsletters/investor_update/20080513_long_term_australian_sharemarket_returns.htm>

² Australian Securities Exchange. Long term Australian share market returns. May 2008, <http://www.asx.com.au/resources/newsletters/investor_update/20080513_long_term_australian_sharemarket_returns.htm>

³ National Australian Bank (NAB). MLC cautious about irrational investment decisions. November 2008, <<http://nidomino.au.thenational.com/Apps/2005/CEODOcLib.nsf/>>

⁴ Australian Securities Exchange. Long term Australian share market returns. May 2008, <http://www.asx.com.au/resources/newsletters/investor_update/20080513_long_term_australian_sharemarket_returns.htm>

Tip 2

Ride out the tides – with diversification

A diversified portfolio may reduce your exposure to risk and provide peace of mind

In light of the current economic downturn, you may be re-evaluating the investment options you have chosen for your super. In doing so, it may be worthwhile considering the benefits of diversification.

The age old saying goes – be careful not to put all your eggs in one basket – which essentially sums up diversification. Diversification is the spreading of investments across a number of different asset classes.

The major asset classes consist of cash, fixed interest, property and shares. Each of these asset classes has their own characteristics, and therefore predicted levels of risk and return, and often react to market movements in different ways. By spreading your super investments across each, the amount of risk your savings are exposed to is reduced.

As seen in the graph below, no one type of asset will provide the best performance over all time periods, as each asset class behaves differently.

For example, during a certain period the value of your property assets may drop, however the value of your shares could increase. In this instance, establishing a diversified portfolio means that the positive performance of shares may, in part, counter the negative performance of property. As a result, your overall portfolio is exposed to a lower level of risk than if all your assets consisted of property.

The overall effect of diversification is that volatility may be moderated in an investment portfolio and investment returns 'smoothed' over time.

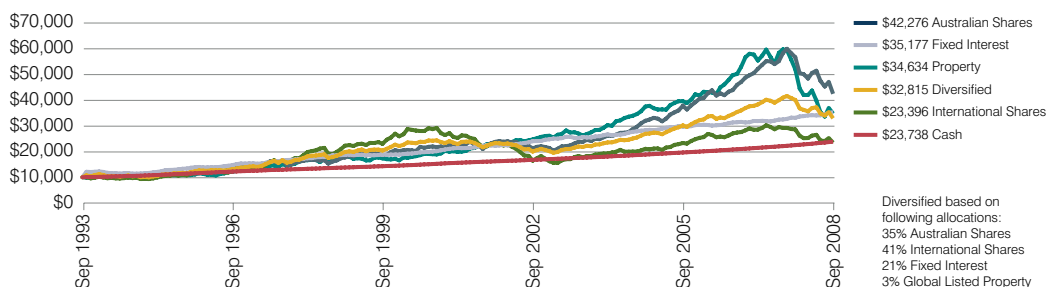


For more information on the investment options available and their correlating levels of diversification log on to the *Member* section of www.plum.com.au, select *Forms and publications*, and download the *Product Disclosure Statement (PDS)* for your super fund which outlines each of the investment options available.



Alternatively, contact a Member Services Consultant on **1300 55 7586** any business day between 8.00am and 6.00pm, Australian Eastern Standard Time (AEST) for more information.

Value of \$10,000 invested from 30 September 1993 to 30 September 2008⁵



Extra diversification using our multi-manager approach

A way to diversify your investments is through leveraging off the multi-manager approach, available to you. This involves utilising the skills of different specialist investment managers who make the investment decisions for you! This approach is available through Plum's investment menu.

How do you determine the right asset class mix for you?

Try out the *Investor profile questionnaire* – it has seven easy questions and will suggest a range of asset allocations and investment mixes that may suit your needs. You can find the *Investor profile questionnaire* in the *Member* section of the website – www.plum.com.au. You can then use the *Asset allocator* to check if your current investment strategy is consistent with your investor profile.

⁵ Source: Calculated by (Plum Financial Services) using data presented in DMS Data Module offered through the Ibbotson Associates' software program EnCorr. Based on copyrighted books by Dimson, Marsh, and Staunton, *Triumph of the Optimists*, Princeton University Press, (c) 2002, and *Global Investment Returns Yearbook 2003*, ABN AMBRO/London Business School (c) 2003. All rights reserved. Used with permission.

Tip 3

Wait for the calm – now's a good time to seek financial advice

Enlisting the help of an expert may provide many short and long-term benefits

When market volatility strikes and investment markets report losses, people can panic. However, if individuals had a sounder understanding of super, the historical movements of the investment markets and the nature of investment options – would their response be different?

To aid your understanding and ensure you're doing all you can to protect and grow your super savings, now is a good time to seek financial advice. Professional financial advice applied not only to your super and whether it is invested in the appropriate investment options, but also your overall financial position, may provide significant advantages over the short and long-term.




A financial adviser can help you establish a financial plan, which will include an assessment of your short and long-term financial goals as well as identifying your appetite for risk. An adviser can also assist with areas such as how to budget effectively and tax saving strategies.

Any area of finance, whether it is super, tax or investments can contain complex terminology and can be difficult to understand. A financial adviser has extensive knowledge in these areas and will be aware of strategies that could be advantageous to your financial position. Additionally, engaging a financial adviser could help build your understanding and engagement with your super and finances in general. Increasing this knowledge, will allow you to look at financial issues, like the current market downturn, from a more holistic perspective.

Momentum Financial Advice is a service made available through your Fund, which is designed to take the hard work out of making financial decisions through the guidance of a financial adviser. Receiving such support can provide you with the reassurance that you're receiving help from an expert.

As a fund member, you can receive general advice over the phone, at no cost to you. You can also attend an initial face-to-face consultation with an adviser, who will assess your personal situation – again at no cost to you.*

If you would like further information on *Momentum Financial Advice*:

-  Contact a Member Services Consultant on **1300 55 7586** who can put you in touch with an adviser directly
-  Go to **www.plum.com.au** or
-  Email us at **service@plum.com.au**

If you would like additional information on any of the tips featured in this guide, go to the *Market watch* section of **www.plum.com.au**. Here you will find some extra tips in *Your survival guide to market downturns* (see below), including key points to consider when a market down-turn occurs and five simple steps to help you review your investment mix. There's also a range of additional information and tools available.



Quick hints

Only focus on what you can control

Tune out the issues you can't control such as market returns, interest rates, inflation and tax rates. Focus on what you can control.

Stay calm and logical

Resist the tendency to respond emotionally.

Organise your financial life

Use a budget planner to see where your money goes, get bill reminders and alerts, track your investment performance, and find extra savings. Review what you spend.

Live within your means

Have a good look to see if you are spending more than you're earning.

Review your mortgage

You may want to consider reviewing your mortgage.

Establish a cash reserve

If you were ever saving for a rainy day, a market downturn means that the likelihood of that rainy day occurring has increased.

Remember the importance of your insurance

Challenging economic conditions mean there is never a better time to have adequate protection in place if something were to happen to you.

* Important note

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Year in Review – Through the looking glass

December brings to a close one of the most tumultuous years financial markets have ever experienced.

The Global Financial Crisis (or GFC as it is now becoming known) is well over 12 months old. But the reverberations are still being clearly felt.

A disastrous October and November which saw a further 20 per cent wiped off share market valuations highlighted that investor sentiment is still extremely fragile.

Superannuation returns are – as expected – fairly dismal in absolute terms.

To put it bluntly – everyone is suffering. The current crisis is now acknowledged to be the most serious since the Great Depression of the 1930s.

Looking at the extraordinary events of the past year, one could almost be mistaken for thinking it is a running sheet for Alice in Wonderland's Mad-Hatter tea party.

Who amongst us would have thought even a year ago that the largest bank and largest insurer in the world (Citigroup and American Insurance Group) would be in danger of collapse, that a number of UK banks would be partially nationalised, or that words such as 'Depression' would be spoken aloud, much less seriously debated.

It's not just the events themselves, but the speed with which they have transpired that has shocked markets and investors. It's indeed a bit like Alice in Wonderland who has gone through the looking-glass... and sees what a strange world it is.

Let's recap some of the major events that have occurred during this crisis:

18 July 2007

Investment bank Bear Stearns halts redemptions in two of their hedge funds and informs investors they would receive very little, if any, of their money back.

9 August 2007

French bank BNP Paribas halts withdrawals from two of their funds because it cannot value the assets in them.

1 October 2007

Swiss bank UBS is the first major investment bank to declare losses from sub-prime related investments. This was the start of a series of write-downs from banks worldwide including Citigroup and Merrill Lynch.

21 January 2008

Global markets experience the biggest falls since 11 September 2001 terrorist attacks.

17 March 2008

Bear Stearns is acquired by JP Morgan Chase for US\$240m – a far cry from its US\$18bn capitalisation only one year earlier.

Reading through the above timeline gives you some sense of the historic nature of what has occurred. Extraordinary circumstances have demanded extraordinary responses. This is a period of history which will no doubt be dissected again and again. How did it happen? Why did it happen? And what should world governments have done about it?

We'll leave these questions for people to address once investment markets eventually, inevitably, settle down.

But the more burning question for many of us right now is – 'what should I do with my superannuation?'

The answer could well be 'nothing at all'. The investment strategy you selected prior to this financial crisis may still be the right strategy for you unless your personal circumstances or objectives have changed.

For most people, retirement is some way off. Even for those approaching retirement or who are already in retirement, it's important to remember that your investment horizon is long term.

Conventional wisdom seems to be that you should be moving to defensive assets at retirement. It's sensible to question the strength of that logic. Are you suddenly going to spend your entire super in the first year that you retire? Almost certainly not.

In reality, most people need their super to last 20 years or more in retirement. That is a long time horizon.

Moving to a defensive strategy such as cash during these uncertain times may seem tempting but could well be counterproductive, as defensive assets can generally be expected to under-perform growth assets over the longer term.

A defensive strategy will give some short term protection from volatility, but will ultimately be cold comfort if your superannuation balance runs out halfway into your retirement.

You may have considered at various points during the current market downturn that you will move to a defensive strategy 'while markets are going down' and then switch back to a growth strategy when markets have stabilised. That would be nice if you could manage it, but how realistic is this really? Professional investment managers struggle to time markets in such a fashion, let alone the average investor. Michelle Heinrich, Head of Investment Communications at MLC detailed the tangible cost of chopping and changing an investment strategy. The US DALBAR study found in 2007 'over the 20 years to 2006 the market (specifically the S&P 500 Index) returned

11.8 per cent p.a., whilst the average US mutual fund investor managed a return of just 4.3 per cent p.a.'⁶

Ask 10 people if they think they are a better than the average car driver and I daresay you'll have close to 10 responses to the affirmative. The same can be applied to investing in markets. Many people think that they can pick the top or bottom of the market. Somehow they will just 'know' when the time is right.

The reality is that when markets rebound, they can do so very quickly. By the time your 'gut' is telling you the worst is over, it could well be that you've missed out on the first 20 per cent or 30 per cent of gains.

Recently times have been tough. Global financial markets are baring the resemblance of a 'Mad-Hatter's tea party' more than an international financial system. However, the historical nature of the financial markets only indicates that crisis's end, and markets eventually recover. Regarding your superannuation, while we recommend reviewing your investment strategy to ensure it is still appropriate for you, if your personal circumstances and objectives haven't changed since the market downturn, you may not need to change your investment strategy.

Wondering how your investments have performed? Find out by looking in the *Performance of investment options available to you* section in your bi-annual statement enclosed in this pack. Here you will find a summary of how your investments have performed over a six month, one year, three year and five year period.

14 July 2008

US Mortgage lender Indy Mac collapses and fears that Fannie Mae and Freddie Mac are also on the verge of collapse forces the US financial authorities to intervene.

15 September 2008

168 year old investment bank Lehman Brothers files for bankruptcy with losses of US\$3.9bn accumulated just in the three months to August alone.

17 September 2008

US Government announces a US\$85bn loan to American Insurance Group to avert the collapse of the world's largest insurance company.

22 September 2008

Australian Securities and Investments Commission (ASIC) bans short selling of all stocks on the Australian Stock Exchange for a period of 30 days (later extended).

2 October 2008

US Senate approves a US\$700bn rescue package but share markets continue to post further falls.

10 October 2008

Australian share market posts biggest one day fall since October 1987 crash, down 8.3 per cent on the day and down 16 per cent for the week.

11 October 2008

Australian Government announces it would provide an unlimited guarantee on all savings deposits for three years and would guarantee wholesale funding of financial institutions.

15 October 2008

US share market posts its biggest one day fall since the October 1987 crash, down 7.8 per cent on the day.

9 November 2008

China announces a four trillion yuan (A\$871bn) economic stimulus package earmarked for low rent housing and infrastructure in rural areas including roads, railways and airports.

20 November 2008

Australian All Ordinaries Index closes at 3,333 points – down more than 50 per cent from its close one year earlier.

24 November 2008

US Government injects US\$20bn into Citigroup through preferred stock to avoid a collapse.

25 November 2008

Federal Reserve announces that a further US\$800bn will be allocated to a facility that will help market participants meet the credit needs of households and small businesses.

2 December 2008

Australian Reserve Bank cuts official interest rates by a further one per cent. European and UK central banks also cut interest rates significantly.

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