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Asset Management

PATIENCE



The key to
surviving market
uncertainty



Getting back to basics

In recent times equity markets around the world have sorely tested the nerve of most investors. In the face of such uncertainty, some investors forget their long-term goals and withdraw their holdings. Even those of us who persist, can at times lose confidence in our long-term investment strategies. But when the pessimism threatens to overwhelm, comfort can often be gained from remembering our original investment goals, and reminding ourselves of the investment basics. When it comes to investing, patience isn't just a virtue – it's a must.



The allure of high returns...

Liz began investing in equities in early 1999; markets seemed to be performing well and needless to say she was attracted to the potential for very high returns. Some of her friends were getting 30, 40 and 50% returns on their investments, and sometimes more. But Liz never intended to be a 'punter' – managed funds were more her style. She consulted a financial adviser and invested in two separate funds. She liked the idea of watching her investment grow while someone else did all the hard work for her.

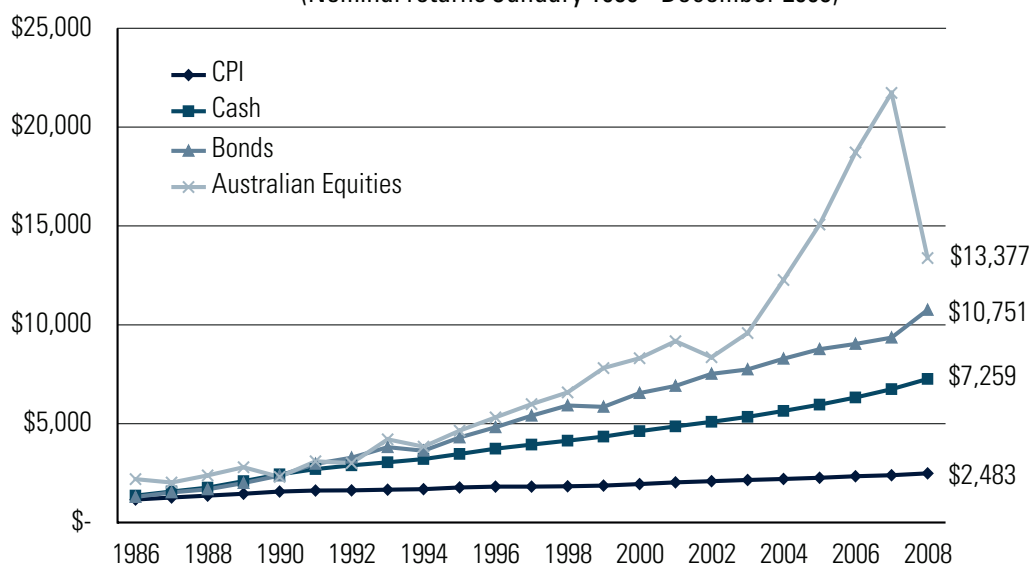
The facts about investing in equities

Market conditions in recent times have served to remind equity investors of what the late 1990s made many of us forget – equities can be volatile and can experience periods of negative returns. But while conditions can be arduous during such times, history has shown that overall, the world's equity markets have grown. Even severe bear markets have ended – eventually.

The time taken to recover has varied. Sometimes recovery has been swift, taking only a year or so, while in other cases it has been gradual and slow, taking many years. Ultimately markets have always recovered. Even the infamous Wall Street crash of 1929 proved to be just an interim downturn when viewed against a long-term backdrop of upwardly rising share prices.



Investment performance comparison of \$1,000
(Nominal returns January 1986 - December 2008)



Past performance is not a reliable indicator of future performance.

The calm before the storm...

By the end of 2002, things weren't looking so great for Liz on the investment front. The gloss was wearing off some of her investments, and her returns weren't meeting her high expectations.

By the end of 2002 newspapers and nightly news bulletins trumpeted headlines of investment doom and gloom. Liz began to wonder if her foray into investing had been a big and expensive mistake. As the months progressed the headlines got worse and by now her friends had all pulled out of their investments. Most of them had realised substantial losses. Some put the money they had salvaged into term deposits where it would be safe. All of them urged Liz to do the same, and get out before it got any worse.

Why
selling
is rarely the
answer

For some investors, the pessimism and uncertainty that tend to go hand in hand with market downturns are too much to endure. These investors often sell, vowing never to return. But while they may believe that getting out will protect against even worse losses, they actually make the worst possible move.

By selling while markets are at historic lows, most investors realise substantial losses on their investments, and, worse still, they deny themselves the opportunity to recover their losses in the event of a turnaround.

Weathering the storm...

Liz was concerned but also confused. She decided to go back to her financial adviser and find out if it was time to rethink her long-term strategy. It was a visit worth making. Her adviser showed her what a difference a long-term approach could make and how even the most severe market downturns in history have been overcome with time. Of course her adviser couldn't provide any guarantees of how long a recovery might take, but Liz was reassured that her best chance of regaining the value of her investments was to still be invested when a recovery eventually began.

So today Liz is weathering the storm just like the rest of us. Despite the difficult conditions, some of her investments are still paying income (which is more than her friends are getting now that they've sold out of their investments). Liz still reinvests her distributions, and she also plans to keep making her savings plan instalments – two strategies that will help her ensure her investment continues to grow over the long term, despite the present conditions.

When Liz began investing she knew that it would be a long-term undertaking, and while poor returns in recent times have been cause for concern, Liz and her adviser are confident that a long-term approach offers the best chance of meeting those all-important, long-term goals.



**Practical
strategies
for surviving a
downturn**

Often the most sensible way to deal with a crisis is to get back to basics. When it comes to investing, that means reminding ourselves of some fundamental investment principles. Indeed, it is in these 'basics' that we can find the keys to surviving difficult markets, be they short-term dips, or more prolonged and severe bear markets...

Stick to your long-term investment plan

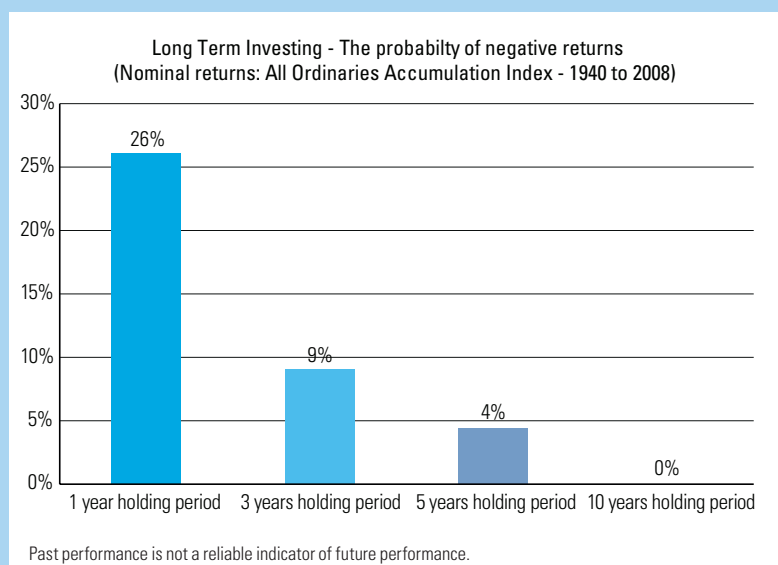
In the face of such poor returns and widespread pessimism, sticking to your long-term investment plan can be a test of nerve, but the 'stay put' approach is a proven strategy for investing. Recent conditions have reinforced how volatile markets can be over shorter time periods (one, two, or even three years).



The way to survive such periods of negative returns is to remember your objectives and to treat your investments as a long-term undertaking, and stay invested for as long as possible. Over time, your investment will undoubtedly encounter periods of strength and periods of weakness, but the longer you remain invested, the better the chance of meeting your long-term investment goals.

Maintain a well diversified portfolio

Another vital strategy for surviving market downturns is to diversify your investments across a range of different types of assets. When certain investments in the portfolio are performing poorly, any losses are more likely to be offset by other investments in the portfolio which may be performing well. As a result, diversification reduces overall exposure to investment risk and helps to achieve more consistent returns over time.



Talk to your financial adviser

If you are unsure or have any questions about your investments, it is important to clarify these with your adviser. With your adviser's help, you can make informed decisions about the best way to achieve your long-term financial goals.

Keys to surviving uncertainty

- Keep a realistic perspective when it comes to investing in equities.
- Take a long-term approach to achieve more consistent returns over time.
- Maintain a well-diversified portfolio to minimise risk.
- Talk to your financial adviser about your long-term strategy.



**Would
you like to
know
more?**

Talk to your financial adviser today about surviving market uncertainty, and why patient investors are likely to be rewarded in the long term.

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