



As part of our continuing investor education series, we invited Russell Investments to provide an objective perspective on why cash may not be such an attractive option for AvSuper members, particularly in times of market volatility.



Why now mightn't be the right time for you to switch to cash

The old Wall Street saying goes, "the market will always act in such a way as to frustrate the greatest number of investors. Just when you think it's going to zig, it zags." So, switching your super investments to cash now means you may miss the benefits of the market upswing.

Recent market turmoil has attracted much media attention of late, with finance company and bank collapses, sub-prime contagion, share market downturns and volatility all seeing time in the spotlight.

Having witnessed these events, or been directly affected by them, some super fund members have asked, "things appear too risky at the moment, why don't I just switch to cash?" Fair question. The certainty of a cash option return appears very attractive relative to the scenarios being projected for share markets by many public and media commentators.

However, by their very nature, the financial markets are unpredictable and there are a number of sound reasons why switching your investments to cash may not be a sustainable option.

Putting all your eggs in one basket - a single bet

A well balanced investment portfolio typically consists of shares, bonds and cash in a way that the risk and return objectives meet those of the investor. The investments within these allocations should be well-diversified across differing investment managers, sectors and countries to reduce risk.



An overweight to cash (or indeed a 100% allocation to cash) represents a single bet that cash will outperform a well balanced portfolio. With a 100% cash position, you will miss out if other options perform better. Of course staying the course in turbulent times is easier said than done.

No potential for upside

A balanced portfolio has the advantage of diversification. Shares are riskier than cash but historically have outperformed cash assets over the long term. Super fund members moving into cash may miss out on these higher long term returns.

Getting back into the market

Stepping out of the market into cash raises the future question of when to get back into the market.

History shows us that the greatest market downswings are followed by great market rallies. If your investment strategy was to switch to cash after a downswing, you may not be able to benefit from the upswing. Staying in the market is critical to long term investment returns.

The tendency of investors, including super fund members, to make short term decisions about their investments has a direct impact on their investment returns. Many investors tend to buy at the top of the market and sell at the bottom, as a result of decisions based on feelings rather than sound formal analysis.



The long term view is best

In summary, while cash may seem like a good investment choice right now relative to a well balanced or growth oriented portfolio, by not taking a long-term view of the market, super fund members may miss out on valuable returns. With the guidance of your financial adviser, design a plan that outlines your financial objectives, while taking into consideration your timeframes and your risk tolerance. Once this is in place, resist tendencies to vary from your plan and remember to measure success according to meeting your objectives.

If you have an AvSuper accumulation or income stream account, you can choose how your super benefit is invested. This gives you the ability to influence your investment risk to suit your needs and situation. There are seven investment options to choose from (including two specific asset class options), and you can choose more than one investment option for your money if you prefer. You also have the option of investing your current balance differently to any future contributions.

The best option for you will depend on your investment objectives, your investment timeframe, your age, your attitude to investment risk and your personal circumstances. You should also note that past performance is not always indicative of future performance. We recommend you read our Member Investment Choice (MIC) Guide or Product Disclosure Statement (PDS) available from our website and consider the options carefully.

AvSuper also provides members with access to commission free financial advisers. A financial planner may be able to help you with your choice. AvSuper can provide members with easy access to financial advice through its strategic partnership with Outlook Financial Solutions. If you don't make an investment choice, your money will be invested in the AvSuper Growth option by default.

* The information provided in this feature has been kindly provided by Russell Investments (ABN 53 068 338 974) for AvSuper members.



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