

As part of our continuing investor education series, and considering current volatility in investment markets, we invited Russell Investments to comment on the sharemarket downturn. In this special feature*, Russell Investments outlines the likely rewards for AvSuper members who are patient and disciplined.



Be warned – when equity markets recover, investors who react emotionally may be left with a portfolio of defensive assets and a truckload of regret.

We all know equity markets rise and fall. However the recent market downturn has worn down many investors, including many super fund members. Weary of asking – “have we reached the bottom yet?” – many members just want to know when the recovery will come. Unfortunately, no one knows when markets will turn, but when equity markets rally (as market history would suggest), members who give up on equities risk missing a recovery that could help them recoup some of their market losses.

The party ends

Towards the end of 2007 we witnessed one of the greatest bull markets of all time. Many super fund members invested in the Australian sharemarket have been riding a euphoric wave of double digit investment returns over the preceding 5 years as shown in the table on the right. Then 2008 arrived and the party was over as equity markets collapsed.

Many investors started to realise that markets could go down as well as up and attention has become focussed on minimising losses, rather than waiting to participate in the recovery. As a result many ‘emotional investors’ have switched out of equities and into cash investment options.

Although current market volatility – triggered by the US housing slump and sub-prime mortgage crisis – has been a painful experience, there is some comfort in putting the recent downturn into perspective. Looking at the performance of the Australian sharemarket over the last 5 or 6 years, it is easy to appreciate the value of **long-term investing** and quite clear that there will be another party. We just don’t know when.

Year	Return of Australian Equities*
2003	15.0%
2004	27.9%
2005	22.5%
2006	24.5%
2007	16.2%
2008 (to 30 Sept)	-25.1%

*S&P/ASX 300 Accumulation Index

In 1983 the market bounced back 66.8%

The current bear market has been compared to the Great Depression and the deep bear market of 1973-1974, both of which created many nervous investors. However those who maintained their market positions in equities at the time were well rewarded when markets bounced back. In fact, investment periods where there are heavy losses on the markets are generally always followed by significant bounce backs.

Markets can’t go down forever. Although sometimes, in the middle of a strong downturn, it is hard to believe that markets will recover. While no one can accurately predict when the bottom of this trough will be reached – or indeed if it has already – everyone knows that it will (sooner or later) arrive. And when it does, it will pay to be invested in equities. While it may be tempting to simply switch to cash investment options and watch from the sidelines, history tells us that members who switch to cash during falling markets will miss significant outperformance when sharemarkets return to health.

Rewards for patience & discipline?

In extreme market conditions such as these, it is easy to let emotion override discipline when making investment decisions. To sit back and watch negative returns is simply unbearable for many. But the truth is – there may be more value for ‘inaction’ for many. It’s important to understand the role that investor sentiment and emotion plays in the cyclical nature of markets – experience tells us that decisions made about money under highly emotional circumstances rarely turn out to be good ones.

For example, many emotional investors buy during strong market upswings ‘so as not to be left out of the gains’ – and buy at the top. On the other side, emotional investors will often switch to cash during strong market downturns ‘so as not to be left wearing the losses’ – selling at the bottom.



While extended bear markets inevitably induce fear in investors, professionals and individuals alike, a disciplined approach can help minimise losses during market downturns and ensure readiness when markets bounce back.

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 five investment options to choose from, and you can choose more than one investment option for your money if you prefer.

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. 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. 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.