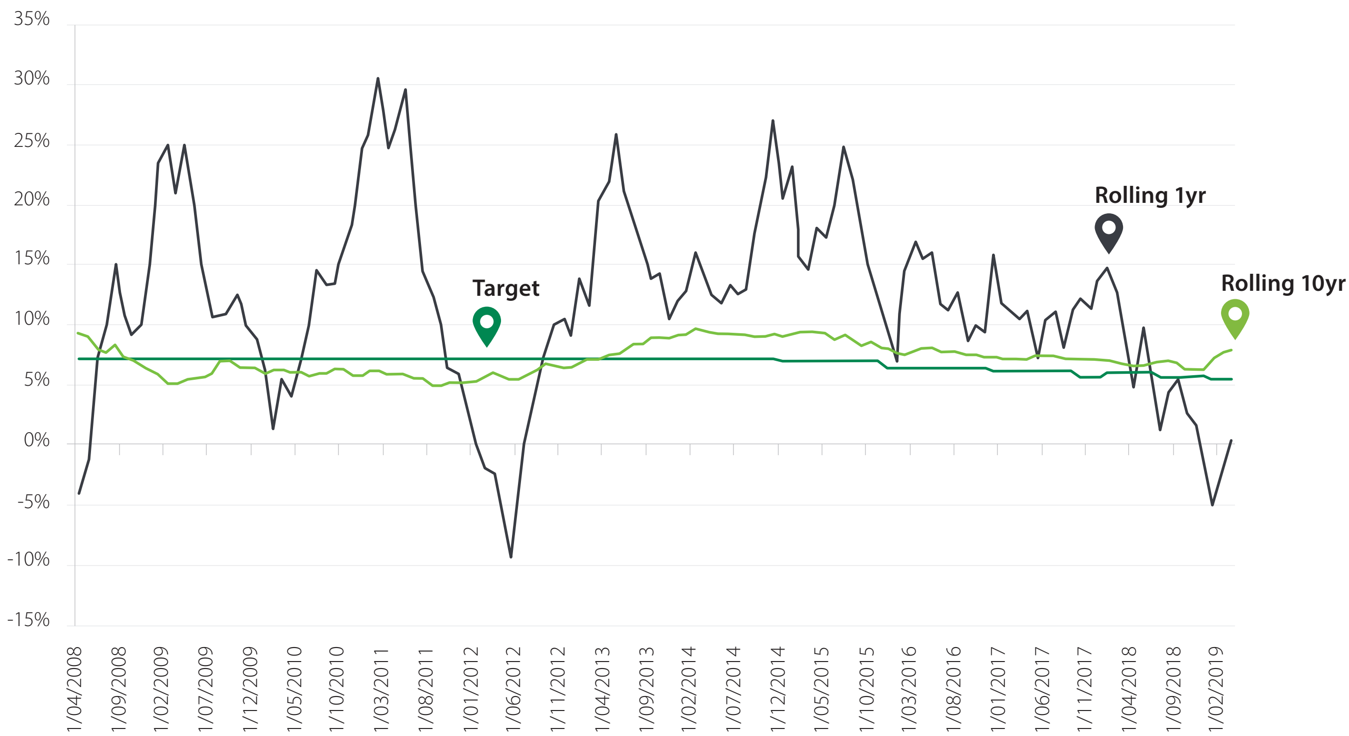
Market volatility and your portfolio

Take a long-term view

Investment results tend to vary more widely when you just consider the returns over a period of one year. Ten-year returns are generally much more stable and a lot more predictable as can be seen in the chart below.



Dark Green line:

Represents the rolling 10-year Target return for a portfolio.

Green line:

Represents the Actual 10-year rolling returns throughout the period.

It has remained very close to the Target, giving us confidence that this process will continue to deliver returns in line with the overall objective over the long term.

Grey line:

Represents the rolling 1-year returns.

As you can see, it's much more volatile than the 10-year return. 1-year returns are sometimes very good, but often very bad. Over the long run (the **Green line**) the process we have followed has generated returns in line with long term expectations (shown by the **Dark Green line**).

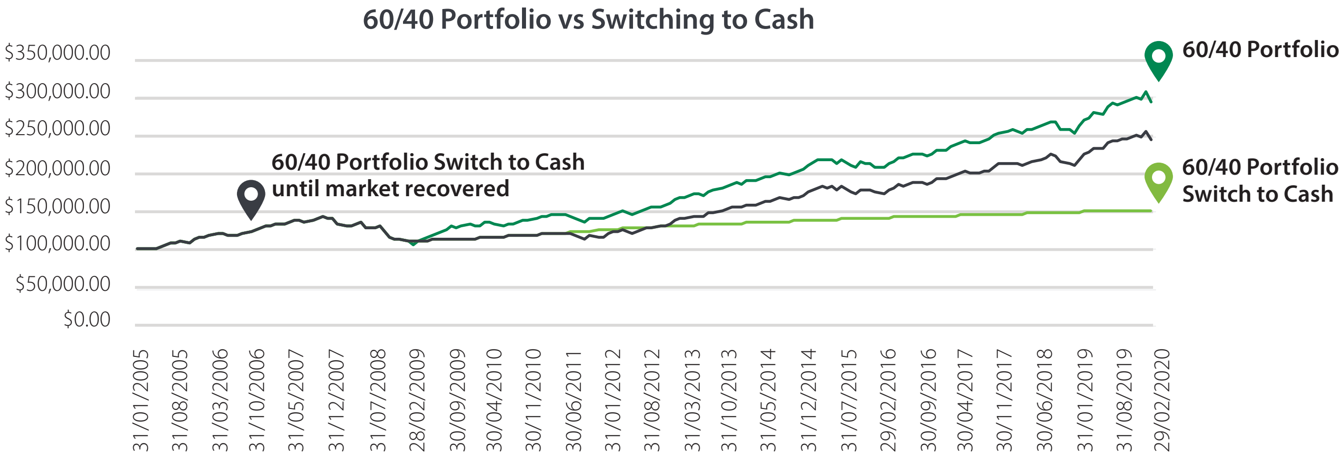
Impact of reacting to short-term noise

Volatility is part of investing, and whilst we can avoid it, there's typically a price to pay for doing so in the form of lower expected returns over the long term.

The chart below shows the impact different strategies have had on an investment portfolio over the previous 15 years.

As you can see, this example shows the volatility (**Dark Green line**) – larger moves both up and down – but highlights that by remaining 'invested' over the long term has resulted in a significantly higher portfolio balance at the end of the period.

The GFC was an uncomfortable investing experience, much like today's environment. However, a well-diversified portfolio protected investors during the drawdown (this example portfolio fell by ~26% at its lowest, whilst Australian shares fell as much as 47%) and remaining in the market helped investors enjoy significant gains over the past decade.



Dark Green line:

Shows the result of remaining 'invested' over the previous 15 years.

Green line:

Shows the result of 'selling out' in the low point of the GFC and remaining in Cash.

Grey line:

Shows 'selling out' in the middle of the GFC and also remaining in Cash but 'reinvesting' once the market had recovered.

Chart ends at 29 February 2020, and does not include March 2020

INDUSTRY TERMS

Asset Allocation

The blend of different assets in your portfolio and is linked to how your portfolio performs over the long term. As an example we would blend Shares with Bonds and Cash.

Drawdown

The amount by which a portfolio or investment balance falls below its highest recent value.

Diversification

Investing in different types of investments to avoid 'putting all your eggs in one basket'.

Volatility

The amount an investment varies compared to the average in a given time frame. As an example, Shares are generally more volatile, moving in higher percentages per day than Bonds, which move by lower percentages per day.

60/40 Portfolio

A portfolio consisting of 60% Growth Assets (such as Shares) and 40% Defensive Assets (such as Bonds or Cash).

Please note: Past performance is not necessarily indicative of future returns.

Disclaimer: This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this document, you should assess your own circumstances or seek advice from a financial adviser. You should obtain and consider a copy of the Product Disclosure Statement available from us or your financial adviser, before you acquire a financial product.

CRA-7951 (52670) 0420