

History provides us with a valuable perspective for investing in the sharemarket

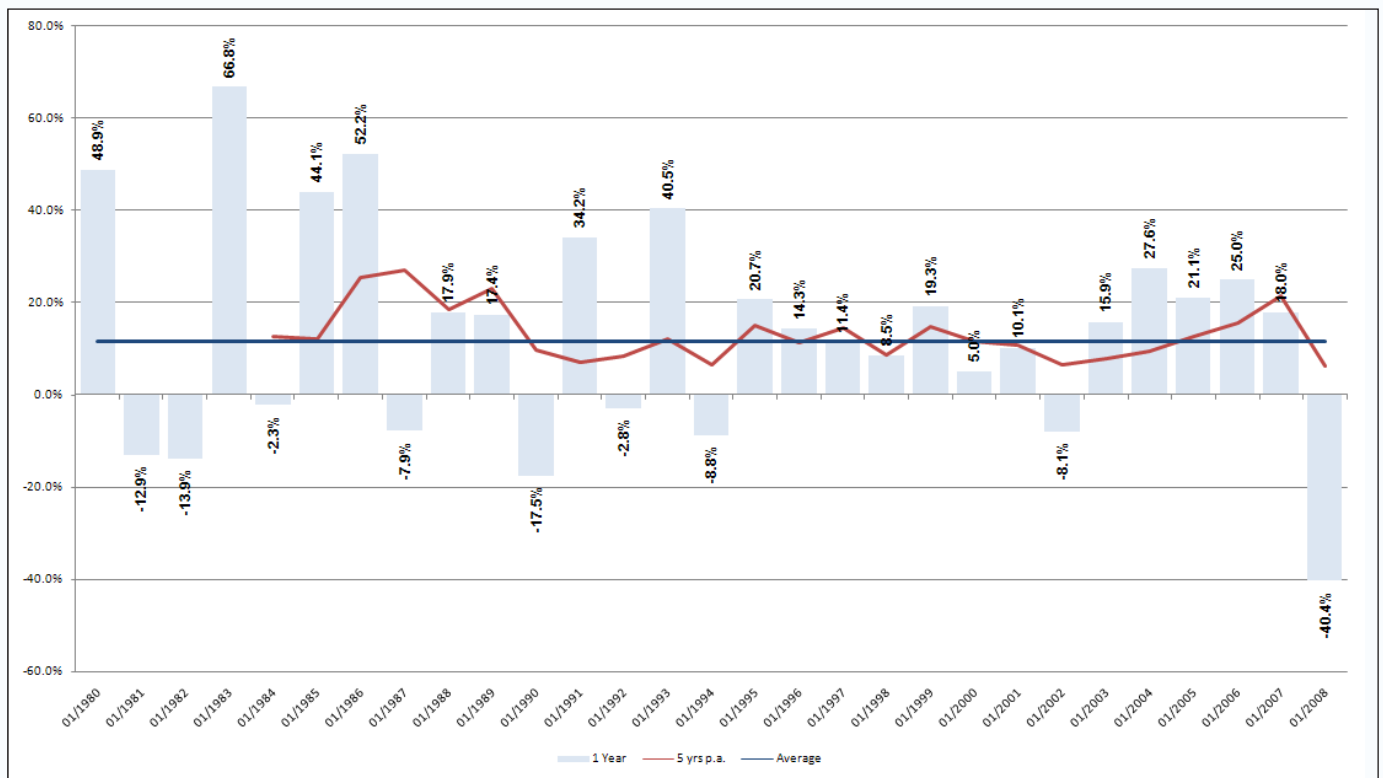
Given the short-term volatile nature of investing in shares, it is important to invest in a diversified portfolio of shares and maintain a long-term investment focus. It may be tempting to react to short term market fluctuations and sell your share portfolio. However, this is a period to revisit your portfolio within the context and discipline of your long-term asset class mix. Short-term market volatility usually presents a long-term investment opportunity.

Sharemarket volatility reduces with time

Over the short-term, sharemarket returns can be volatile and fluctuate significantly. However, the volatility of shares is reduced if investors consider returns over a longer period of time.

The graph below illustrates the returns achieved by Australian sharemarket investors and suggests returns are smoother over time.

- Highest one year return was 66.8%
- Lowest one year return was -40.4%
- Highest five year return was 26.9% p.a.
- Lowest five year return was 6.3% p.a.
- **Average return was 11.4% p.a.**



Source: IRESS. Data represents the All Ordinaries Accumulation Index monthly returns from 31st December 1979 to 31st December 2008. 1 year returns represent calendar year returns, 5 year p.a. returns represent compounded returns over the period on a calendar year basis and the Average return represents the compounded annual return over the period.

History of sharemarket corrections ('bear markets')

Whilst history tells us that markets that have fallen will recover, the timing and the speed of the recovery is usually difficult to predict. Therefore, it is important for investors to focus on their long term goals and ride out any short term volatility. In 2001 and 2002, global sharemarkets fell significantly after the boom of the previous decade. From 2003 through to 2007, however, global sharemarkets delivered strong returns for investors. The table below presents some interesting facts relating to the returns investors enjoyed once the sharemarket began to rise again after significant corrections. It is based on the US sharemarket which provides a long time horizon and some valuable historical insight. In particular, the period from 1932 to 1937 shows how the US sharemarket performed after the last major 'banking crisis' which resulted in the 'Great Depression'.

Bull and Bear Markets since 1900

Bull Market Expectations

Bear Market Expectations

Start*	End*	Duration (mths)	Gain (%)	Start*	End*	Duration (mths)	Loss (%)
11/9/03	1/19/06	26	144%	1/19/06	11/15/07	22	-49%
11/15/07	11/19/09	24	90%	11/19/09	12/24/14	61	-47%
12/24/14	11/21/16	23	107%	11/21/16	12/19/17	13	-40%
12/19/17	11/3/19	22	81%	11/3/19	8/24/21	22	-47%
8/24/21	9/3/29	96	497%	9/3/29	7/8/32	34	-89%
7/8/32	3/10/37	56	372%	3/10/37	3/31/38	13	-49%
3/31/38	11/9/38	7	60%	11/9/38	4/28/42	42	-41%
4/28/42	5/29/46	49	129%	5/29/46	6/13/49	36	-24%
6/13/49	1/5/53	43	82%	1/5/53	9/14/53	8	-13%
9/14/53	7/12/57	46	104%	7/12/57	10/22/57	3	-19%
10/22/57	12/13/61	50	75%	12/13/61	6/26/62	6	-27%
6/26/62	2/9/66	43	79%	2/9/66	10/7/66	8	-22%
10/7/66	11/29/68	26	48%	11/29/68	5/26/70	18	-36%
5/26/70	1/5/73	31	74%	1/5/73	10/3/74	21	-48%
10/3/74	9/21/76	24	73%	9/21/76	3/6/78	17	-19%
3/6/78	2/13/80	23	36%	2/13/80	3/27/80	1	-17%
3/27/80	11/28/80	8	43%	11/28/80	8/12/82	20	-27%
8/12/82	8/25/87	60	229%	8/25/87	10/19/87	2	-33%
10/19/87	7/16/90	33	64%	7/16/90	10/11/90	3	-20%
10/11/90	3/24/00	113	417%	3/24/00	10/9/02	30	-49%
Mean		40	140%	Mean		19	-36%
Median		32	82%	Median		18	-35%
Mean (ex 25% outliers)		35	99%	Mean (ex 25% outliers)		17	-34%
10/09/2002	10/09/2007	60	101%	10/09/2007	11/20/2008	13	-52%

Source: Datastream & J.P. Morgan. Returns represent data from Dow Jones until 1960 and the S&P 500 after 1960. *date mm/dd/yy

During market falls, investor portfolios tend to naturally reduce their exposure to shares while other asset classes such as cash and bonds become a larger portion of their overall asset mix. As the official Reserve Bank of Australia cash rate has been reduced to 3% and banks are likely to be offering depositors less than this rate, now is another good reason to speak to your adviser and discuss the rebalancing of your portfolio towards your longer term asset mix. If history repeats, then we are likely to experience a period of strong sharemarket returns. This rebalancing should ensure that your portfolio retains its longer term asset mix and benefits from a sharemarket recovery when it eventually occurs, we just don't know when it will happen.

On a final note, *"Occasional outbreaks of those two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics is equally unpredictable, both as to duration and degree. Therefore we never try to anticipate the arrival or departure of either. We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."*
- Warren Buffett, 2001.

The information contained in this presentation has been prepared for general use only and does not take into account your personal investment objectives, financial situation or particular needs. Before you make any decision about whether to invest in a financial product, you should obtain and consider the Product Disclosure Statement of the financial product.

The information provided by Ausbil Dexia Limited has been done so in good faith and has been derived from sources believed to be accurate at the time of compilation. Changes in circumstances, including unlawful interference and unauthorised tampering, after the date of publication may impact on the accuracy of the information. Neither Ausbil Dexia Limited nor any member of the Dexia Group accepts responsibility for any inaccuracy or for investment decisions or any other actions taken by any person on the basis of the information included. Past performance is not a reliable indicator of future performance.

Neither Ausbil Dexia Limited nor any member of the Dexia Group guarantees the performance of the Funds, the repayment of capital or any particular rate of return. The performance of any unit trust depends on the performance of its underlying investment which can fall as well as rise and can result in both capital losses and gains. Consequently, due to market influences, no assurance can be given that all stated objectives will be achieved.