



Investment Update

May 2009

Have markets moved into recovery mode?

The only thing more hotly debated than the state of the economy and investment markets is the question of when we're going to see a recovery and how long might it take for markets to fully recover lost ground. After 16 straight months of turmoil, signs of recovery from the global financial crisis started to emerge in March this year with the climb continuing in April, causing many to speculate that the market downturn had in fact bottomed and recovery was underway.

The global financial crisis, started by the sub-prime mortgage crisis in the US in 2007, took a significant chunk out of markets and many people's investments – the impact being felt strongly by super funds and by people close to or in retirement. So any signs that point to a possible recovery prompt speculation about whether this is the start of the recovery we've been waiting for.



Bull and bear markets

We are in the midst of one of the most significant bear markets of the last fifty years. The current downturn has seen a fall of 47.3% in the All Ords, second only to the 1973–74 oil crisis when markets plunged 54%.

A bear market is one in which share prices are falling. By contrast, a bull market is one where share prices are rising. Duration has little to do with its severity, but bear markets have lasted 15 months on average, with the longest on record being the 32 month bear market of 1980–1982. The current bear market has continued for some 16 months and may not be over yet.

Positive signs of recovery

There are a number of indications that the market has started to recover. US indicators measuring manufacturing conditions, housing sales and finance are giving some signs that the market may be bottoming. Although there has been some weakening in the Chinese economy, business activity indicators there are showing some improvement. Around the world, share markets have responded to these early signs with more confidence and have risen accordingly.

Further bolstering speculation of a recovery is the fact that governments, including our own in Australia, have committed significant financial resources to ensure that the downturn is mitigated to the greatest extent possible. While it's hard to predict the effect of this activity on an immediate recovery, it will position Australia to take full advantage of recoveries in overseas markets when they happen.

The improvement in the market over the last couple of months has given rise to recovery predictions but it's important to keep in mind that they are indications only, not concrete predictors. While some are





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quietly confident, very few investment experts would be willing to say with absolute confidence that a recovery is underway in the immediate term. These sorts of market movements are easy to see in retrospect but are harder to call while they're unfolding. Whilst it's possible to make educated guesses about where markets will go, they will only ever be speculation. Furthermore, any turnaround in the market is expected to provide a bumpy ride, with fluctuations expected as markets stabilise and start to improve.

Time in the market is important

An examination of past downturns shows that in most cases, significant bear markets have invariably been followed by strong bull markets. In every case, the market has recovered and gone on to reach new highs. Additionally, economic changes lag behind but eventually follow changes in the market, which means that markets can be recovering whilst economies are still showing effects of a downturn. Focusing on economic conditions as a predictor of where markets will go may not be to an investor's advantage. Long term investment performance shows that it's the length of time your money spends in the market that is a significant contributor to investment success.

A well-worn investment maxim suggests that buying low and selling high is the way to make your share market returns. However, this requires the investor to have a keen sense of timing as to when the highs will reach their heights and the lows their depths. Chasing market movements and trying to predict the highs and lows is called "timing the market", that is, trying to move in and out at the most opportune time.

As already mentioned, historical evidence shows that time in the market, being the period for which your money is invested, regardless of the highs and lows, is a better predictor of investment success than moving your money in and out in the hope of chasing returns.

What does this mean for your super?

As an NGS Super member, you have access to 11 investment options that provide a range of asset classes and risk profiles. Our default option is the Diversified Option, which is invested 74% in growth and 26% in defensive assets. This means it's a growth investment with a higher weighting towards assets such as shares, infrastructure and property that have the potential to provide growth in the medium to long term. NGS Super has chosen this as the default option to give the opportunity to increase members' super savings over the long term, while having the effects of any market downturn lessened by the small investment in defensive assets.

In March and April, this option returned 1.5% and 3.68% respectively, showing some response to boosts in the market over the period.

What if I have more questions?

Call our Customer Service Team on **1300 133 177** between 8 am and 6 pm, Monday to Friday (EST).

We're here to help you!

Important Information

The information in this investment update is of a general nature. Any recommendations, statements of opinion or financial advice have been prepared without taking account of your personal circumstances, investment objectives, financial situation and needs. You should read the relevant Product Disclosure Statement (PDS) and assess your own situation before you make an investment decision based on this information.

