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Investment Update

October 2008

In our investment update for September 2008, we wrote about superannuation as a long term investment and the opportunities that volatility in the market provides to purchase good quality assets at low prices with the intention of holding them for the long term and making a profit.

Since we wrote this, the volatility in the market has increased further and this has resulted in the market returns regularly making the top story on the news either because the daily movements were very strong or more recently, exceptionally weak. It is important to appreciate that these movements, while more pronounced than usual and being promoted to the top of the news rather than the bottom, are a regular part of the market and what many experts refer to as its psychology.

Market psychology

When the market rises significantly, short-term investors buy investments or borrow to buy investments to take advantage of short-term rises, and then sell to take a short-term profit. The emotion driving this behaviour is greed. But when the market falls significantly, fear takes over as short-term investors sell their investments to try to avoid a short-term fall and a short-term loss. They lose money on their sales. And borrowers can be left with assets worth less than they cost – and a debt worth more than the asset’s current value.

Over the long term, these short-term rises and falls offset each other. Long-term investors who stick to their strategy and ignore the drama can make a significant profit. They did not become greedy and buy expensively while the market was rising, and they did not borrow to buy over-priced investments. Even more importantly, they held their nerve when others succumbed to fear and sold when markets started falling. They may even have been buying when good quality assets became cheaper.

Yesterday and today

Today we find ourselves in a time of heightened fear in the market. This has happened before, and it will inevitably happen again in the future. Many lessons have been learnt from the market crashes of 1929 and 1987.

The important lesson for long-term investors is that even someone who invested all of their money in the market the day before each of these events has achieved solid returns over the long-term since then. Unfortunately, the same can’t be said for those who sold the day after these events.



What does it mean for your super?

Your super is a long-term investment and by holding your nerve like successful long-term investors, you have the opportunity to ride out the storm and take advantage of the opportunities offered by volatility in the market. NGS Super recognises and acts on these opportunities to buy good-quality assets at low prices, with the intention of holding them for the long term and making a profit.

Over the past 5 years, the Diversified option in Superannuation has increased in value by 8.6% per year, despite a short-term fall in September of 4.8%. The Diversified option for Pensions has increased in value by 9.2% per year over the same period, despite a fall in September of 5.5%. The short-term falls over the past year mean that, as for other Australians, the value of your super has fallen significantly. But considered over the long term – that’s five years or more – both the Superannuation Diversified and Pension Diversified options have achieved their





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investment objective of exceeding the consumer price index by over 3% each year.

The recent fall means that most members will have less in super than they did a year ago. While this is disappointing in the short term, investment performance over the long term suggests most members will be able to withstand the current volatility and increase their account balances over the longer term. Most Pension members are likely to have a life expectancy of up to twenty years or even more, so they too have time on their side. And most members still saving their super have many years before them before they will access their superannuation. That means most NGS Super members can be truly long-term investors, who can expect to benefit significantly when markets rebound.

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.

Volatility

Volatility measures of the state of instability. In financial markets, it is a statistical measure of the tendency of a market or the price of security to rise or fall sharply within a given period of time. The Chicago Board Options Exchange Volatility Index (VIX) measures the volatility of the market at a given time. The VIX has recently set an all time high of 75. Eighteen months ago, when the markets were booming, the VIX was 15.