

Volatility and your investment

challenger 

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As we enter a new year, many investors are breathing a sigh of relief that 2008 has come to an end. During 2008, the Australian share market experienced its worst year in history, shedding 41% of value. The extreme volatility of the market took many people by surprise and challenged even the most experienced investors. So why are the markets behaving this way and what steps can be taken to endure these volatile times?

Investment markets in 2008

In 2008 the flow-on effects of the 2007 US sub-prime crisis were truly felt around the world. What began as an industry and country specific problem caused by US home lenders issuing loans to people who couldn't afford them, became a worldwide financial phenomenon.

The sub-prime crisis spread to credit markets, resulting in a 'credit crunch' with banks and debt providers effectively ceasing to lend and issue debt. Global credit markets shut down and liquidity evaporated from these previously freely traded markets. At the same time some major, global financial institutions suffered significant losses and a few were acquired by competitors to stay afloat.

Courtesy of the globalised nature of financial markets, the crisis spread to other investment markets and countries, such as Australia, where investors lost confidence and dramatically sold off shares. After starting in January at 6,353 points, the S&P/ASX 200 trended downwards throughout the year, finishing at 3,722 points, as shown in the following chart of monthly movements.

Australian share market performance in 2008



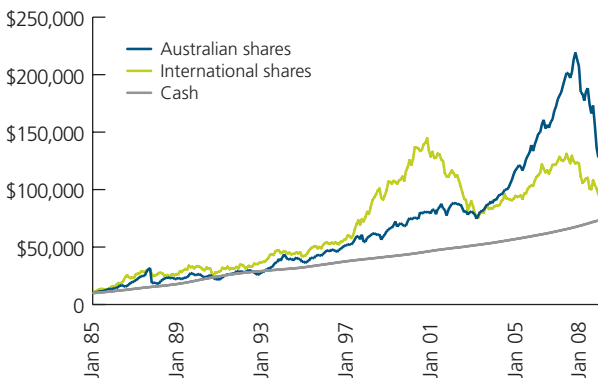
Similarly the property and credit markets sectors suffered flow-on effects from the sub-prime crisis, resulting in weaker investment sentiment and fewer transactions.

A long-term perspective

Despite inevitable ups and downs, investing in shares has historically created a significant amount of wealth for investors when used as part of a long-term investment strategy. Experts generally recommend a time horizon of at least five to seven years for these types of investments.

Taking a longer perspective, over the past 24 years, property and shares have delivered strong growth. An investment of \$10,000 in Australian shares in 1985 was worth \$128,000 by the end of November 2008.

Growth of \$10,000 since 1985



S&P/ASX 200 Accumulation Index, MSCI World ex-Australia Accumulation Index, Australian 90 Day Bank Accepted Bill Index.

It's important to remember that investing in growth assets is a long-term endeavour and the performance of these investments should be measured accordingly.

Investing during volatile times

Despite the current market volatility, the following fundamental investment principles still apply. Before making any investment decision it is important that you seek advice from a financial adviser first. They will be able to assess your position and recommend an approach suited to your individual circumstances.

1. Goals and time horizons

Investment goals are the foundation of any investment strategy. As such, an investment strategy should meet an individual's goals, risk profile and income needs. If your goals have changed, or are no longer being met, seek advice from your financial adviser. Your financial adviser will also be able to consider your particular time horizon – a year of negative returns may not have a significant impact if your goal is to access your money in ten years' time.

2. Diversification

A well diversified investment portfolio, which includes a range of investment types and different individual securities, should withstand market fluctuations better than one with only a few investments or a combination of similar investments. In difficult times a diversified portfolio can help smooth out the ups and downs of performance to provide improved peace of mind.

3. Keep informed and seek advice

It's more important than ever to stay informed. The media and the Internet are full of information about the global financial crisis and the state of the Australian economy and your financial adviser is an invaluable source of information and guidance during difficult times. If you don't have a financial adviser and would like some help, we recommend you contact the Financial Planning Association of Australia or visit their website at www.fpa.asn.au to find an accredited financial adviser in your local area.

4. Short and long-term returns

Whilst it may be tempting to invest your money in the asset class that performed best last year, over the past 20 years, the best performing asset class one year has been the best the next year only four times. Your financial adviser can help assess whether sticking to your strategy and investing for the long term is likely to be the best approach for your needs including in terms of helping you benefit from market turnarounds when they occur.

How Challenger is responding to the environment

As an active manager, we continue to build portfolios that we believe are positioned to provide the best possible investment returns during these turbulent times.

If you would like more information about the current market environment, or how your investment is performing, contact our Investor Services team on 13 35 66.

Disclaimer

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