

Investor FAQs on Market Volatility

This flyer outlines key questions and answers to give you a greater insight into the current market conditions being experienced locally and abroad.

Q: What's happened in the markets?

A: We've seen a lot of volatility in financial markets in recent weeks because of a number of factors:

- The speed of global economic recovery has been sluggish.
- Global policymakers in the US and Europe have been slow to make decisions to restore confidence in their markets.
- Concerns about the ongoing debt situation in Europe.
- The US government has been slow to increase the debt ceiling, and the ratings agency Standard & Poor's downgraded the credit rating of the US last weekend.
- The extreme swings of the past few days in global share markets were a result of all these factors building up, not just one single event.

Q: What does this mean for Australia and Global investments?

A: Global investments, mostly shares, have fallen sharply as investor confidence continues to fall. Until there is some level of certainty in the markets, shares will continue to be volatile. This uncertainty will also flow into other parts of the economy, affecting consumer confidence, housing prices and jobs growth.

The Australian share market is not immune to these macro (global) issues and is expected to be volatile in the short term as we react to US and European markets rather than stock specific issues.

However the Australian market is somewhat more insulated from the global issues because:

- Our market is more reliant on emerging markets, which are less affected by current global market falls.
- The large amount of investment in the resources sector is likely to continue, providing a solid base for earnings for next year for many companies.

Q: How is this different to what happened with the GFC?

A: The Global Financial Crisis (GFC) in 2008/2009 resulted in a global recession that was driven by a liquidity crisis across a significant number of global financial institutions. The situation of

the past week is partially due to how investors are feeling rather than directly related to problems in the financial system or the economy. Panic amongst investors can cause extreme levels of market movements, like what happened in the US and Australia over the past week.

Q: Will this volatility continue?

A: We expect that financial market volatility could continue for some time due to the general lack of confidence among investors, combined with worries about the health of the global economy. But Australia is in a relatively strong financial position compared to the rest of the world. We have:

- Low levels of debt
- A stable employment market
- A strong regulatory and governance framework
- Sound financial institutions

Some other positives for Australia are:

- Australia doesn't have a huge government debt burden compared to the US.
- Australia is also able to use monetary policy to cut interest rates if necessary.
- Stock market fundamentals for the market are still strong.

Q: What strategy should I take?

A: Keeping calm is key

Talk to your financial planner if you're concerned about whether your investments are still appropriate to meet both your short-term and long-term investment and lifestyle goals. And remember, you will realise a loss only if you sell now.

Focus on your long-term investment horizon

Despite global downturns in markets over the past 100 years, history shows that if you had invested for any 10-year period over the last 50 years, you'd always have made a profit – on average, of around 12% per year¹.

Financial market volatility is not a new phenomenon

It's important for investors – especially during times like this – to take a deep breath, step

¹Source: Shares index is ASX Accumulation Index-All Ordinaries to April 2000 and S&P/ASX 300 Index thereafter. 'Year' is calculated on a calendar year with annualised returns (capital growth and income reinvested). 12.7% is the average of the 10 year rolling compound returns between 1961 and 2010. Consider your personal objectives, financial situation and needs before acting on this information. Past returns are no guarantee of future performance.

back and look at where the value is. Markets move up and down but there is value represented in the marketplace currently.

Australian companies are still paying high dividends to investors. Income investors should focus on this. History says there will always be a bounce back. And, the long-term direction of the share market has always been up.

Q: What should I do next?

A: If you have any further questions or concerns please speak to your financial adviser.

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