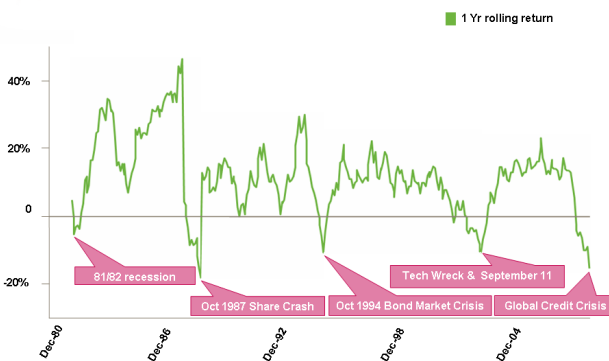


Understanding market volatility

Super funds invest to varying degrees in a wide range of asset classes, including global and local share markets as these have historically generated the greatest long-term returns to investors.

Volatility is not a new phenomenon, but an inherent part of any investment. It's important to be aware of how markets work with respect to volatility, how this might impact your super investments and where opportunities may lie.



Markets move in cycles

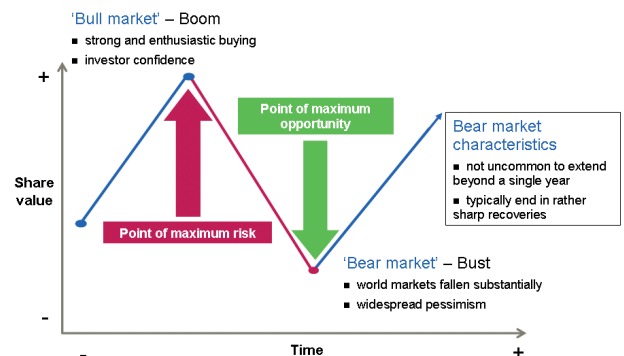
Share markets move in cycles and tend to recover from downturns. Your super is subject to these market cycles and periods of volatility.

The chart below illustrates that significant downturns are generally followed by recoveries in the market.

Over the course of your superannuation investment it's likely you will see a number of market cycles and watch your account balance move up and down with them. It's important to remember that superannuation is a long-term investment and is often subject to the volatility that affects share markets.

What happens over a full market cycle

As you can see in the graph below, a full market cycle includes both a bull market and a bear market, which cyclically reoccur. As markets fall, opportunity increases.



The role of unit pricing

Most super funds are unitised, therefore when you make a contribution to your super fund, you are actually buying units in managed funds.

When investment returns are positive the unit price will go up. When investment returns are negative the unit price will go down.

By making or increasing regular voluntary contributions to your super*, you can take advantage of the relative cost effectiveness of a falling market; by making regular contributions to your super when unit prices are low, you can purchase more units in your super fund. This means you would have more units to benefit from a market recovery.

*Please note the Government places caps on both pre- and post-tax super contributions (including salary sacrifice and employer contributions). Any contributions over the relevant caps are subject to extra tax. For more details visit mercercwealthsolutions.com.au and click on "Contribution caps" under the Fast Find heading on the home page.

Asset classes

Historically, higher risk asset classes such as shares (growth assets) have delivered higher long-term returns than less volatile asset classes such as cash or fixed interest (defensive assets). Investing in higher risk assets will occasionally result in losses, however over the long term share markets have historically outperformed other asset classes.

Although switching investment options may seem like the logical thing to do to protect your investment, it can compound the negative impact of short-term market volatility and crystallise negative returns.

Diversification can generally be a useful way of reducing investment risk. Diversification means spreading your investment across a number of different asset classes (for example growth asset classes such as shares and property, and defensive asset classes such as fixed interest or cash) to help minimise the impact of a volatile market on your investments.

To get the best out of your super, it's important to choose investment options which best suit your long-term goals and appetite for risk. Super is a long-term investment that calls for a long-term approach.

Investment tips

Investors should avoid the following pitfalls in a volatile market:

- Taking a short-term view of a long-term investment: superannuation is a long-term investment and your investment strategy should reflect this.
- Misunderstanding the risk/return trade off: there is a delicate balance between risk and return which applies to any investment.
- Chasing returns: chasing returns now doesn't necessarily mean those returns will last until your retirement.
- Failing to seek advice before making decisions: seeking financial advice is important because an adviser can look at your individual situation, your lifestyle and goals and make a recommendation that takes into account any risks.

Before making any decisions concerning your super, you should seek advice from a licensed, or appropriately authorised, financial adviser.

To speak directly with a Mercer financial adviser call **1800 682 525**.
We have offices located around Australia. To find a Mercer office,
please visit our website at mercerwealthsolutions.com.au/office-locations.

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